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A PLACE TO CALL HOME
THE CRISIS IN HOUSING FOR THE POOR

Center on Budget and Policy Priorities ■ Low Income Housing Information Service

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PAUL A. LEONARD
CUSHING N. DOLBEARE
EDWARD B. LAZERE

CENTER ON BUDGET AND POLICY PRIORITIES
Washington, D.C.

LOW INCOME HOUSING INFORMATION SERVICE
Washington, D.C.

The Center on Budget and Policy Priorities, located in Washington, D.C., is a nonpartisan, nonprofit research organization that studies government spending and the programs and public policy issues that have an impact on low income Americans. The Center is funded by grants from foundations.

The Low Income Housing Information Service, like the Center a nonpartisan and nonprofit research and education organization, provides information and assistance to encourage the availability of decent and affordable housing for low income people.

About the Authors

Paul A. Leonard is a policy analyst at the Center on Budget and Policy Priorities. He directs the Center's housing policy project and has authored a series of reports on housing conditions for the poor in major metropolitan areas.

Cushing N. Dolbeare is a consultant on housing and public policy issues. She is the founder of the Low Income Housing Information Service and the National Low Income Housing Coalition. She is the author of numerous studies on low income housing needs and programs.

Edward B. Lazere is a research assistant at the Center on Budget and Policy Priorities. His research focuses on affordable housing and related issues.

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Center on Budget and Policy Priorities
236 Massachusetts Avenue, N.E., Suite 305
Washington, D.C. 20002
(202) 544-0591
Robert Greentstein, Executive Director

Low Income Housing Information Service
1012 14th St. N.W., Suite 1006
Washington, D.C. 20005
(202) 662-1530
Barry Zigas, Executive Secretary

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Preface

This report on the nation's low income housing conditions is issued jointly by the Center on Budget and Policy Priorities and the Low Income Housing Information Service. The report is based on data from the *American Housing Survey, 1985 (AHS)* published by the Bureau of the Census of the U.S. Department of Commerce and the Office of Policy Development and Research of the U.S. Department of Housing and Urban Development in February 1989.

The AHS is comprised of nearly 500 pages of tables, providing a wealth of data on the nation's housing conditions. In particular, this publication includes data on households below the federal poverty lines, the first time such data has been published. Similar federal publications and previously unpublished data on poor households issued in earlier years by HUD and the Census Bureau provided data on housing conditions in 1970 and 1978.

In addition, our report builds upon earlier analyses by the Low Income Housing Information Service, the National Low Income Housing Coalition, housing consultant Cushing N. Dolbeare and the Joint Center on Housing Studies at Harvard University. The report also incorporates data from other sources including the Census Bureau's Current Population Survey and a variety of federal budget documents.

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This report would not exist were it not for the efforts of many of the staff at the Center on Budget and Policy Priorities. Most critical were the efforts of the Center's director, Bob Greenstein, who provided invaluable editorial and substantive guidance at every step of the report. In addition, Art Jaeger, Keith McKeown, Scott Barancik, Cathy Carr, Wendy Burnette, and Jennifer Wu made valuable contributions at various points in the editorial and production process. Finally, a special thanks to Richard Civille for his skillful preparation of the the final document for publication.

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Executive Summary

In February 1989, the U.S. Bureau of the Census and the U.S. Department of Housing and Urban Development (HUD) issued the first comprehensive set of data in more than four years on housing conditions nationwide. These data, collected as part of the American Housing Survey for 1985, show that most poor households in the United States pay extremely large portions of their limited incomes for housing costs.

Under standards established by HUD, housing is considered affordable for a low income household if it consumes no more than 30 percent of the household's income. Yet the data released reveal that five of every six poor renter households paid more than 30 percent of income for housing in 1985. The new data show:

- Some 45 percent -- nearly half -- of all poor renter households in the nation paid at least 70 percent of income for housing costs (rent and utilities) in 1985. More than three million poor renter households bore housing costs of this magnitude.

- Two of every three poor renter households paid at least 50 percent of income for housing.

- Some *85 percent of poor renter households* -- or 5.8 million such households -- paid at least 30 percent of income for housing, or more than the amount considered affordable under the federal standards.

- The typical (or median) poor renter household had an income of less than $5,000 in 1985 (equivalent to about $5,500 in 1988) and spent 65 percent of its income on housing.

Poor homeowners are nearly as hard-pressed as poor renters.

- Nearly one-third of all poor homeowners -- 31 percent -- paid at least 70 percent of their incomes for housing in 1985.
- Nearly half paid at least 50 percent of their incomes on housing, while 73 percent paid at least 30 percent of income on housing.
- Poor homeowners faced high costs for housing expenses other than just their mortgage payments. The typical poor homeowner household that incurred these costs paid 35 percent of its income for fuels, other utilities, real estate taxes and insurance.
- The typical poor homeowner household -- like the typical poor renter household -- had an income of less than $5,000 a year. It paid 47 percent of its income for housing.

These extremely high housing costs represented a substantial burden for the 13.3 million households living below the poverty line in 1985. (The poverty level was $8,573 for a family of three in 1985.)

About three-fifths of these poor households were renters, while about two-fifths were homeowners. Approximately 60 percent were white, 25 percent were black, and 10 percent were Hispanic.

It should be noted that the American Housing Survey data on which this report is based do *not* cover most of those households who are homeless. As a result, this report provides a conservative estimate of housing problems facing poor households.

Increases in Housing Burdens Since the 1970s

The problems faced by poor households in finding affordable housing have worsened appreciably since the 1970s.

- The proportion of poor renter households who spent 60 percent or more of their income for housing grew from 44 percent in 1978 to 55 percent in 1985, an increase of 1.4 million households.

- Poor homeowners faced similar increases in housing cost burdens. In 1978, some 31 percent of poor homeowners spent at least 60 percent of their incomes for housing expenses, but by 1985 some 38 percent of poor homeowners had housing costs of this magnitude. This represents an increase of 750,000 households.

A revealing way to examine affordability problems faced by low income households is to compare the number of households with low incomes to the number of low rent units in the housing stock.

- In 1970, the number of rental units that rented for no more than 30 percent of the income of a household earning $10,000 a year (i.e., for no more than $250 a month) was approximately 2.4 million *greater* than the number of renter households with incomes at or below this level. (All figures for incomes and rents for years prior to 1985 are adjusted for inflation to be comparable to 1985 dollars.)

- In 1985, by contrast, there were nearly 3.7 million *fewer* units renting for no more $250 a month than there were households with incomes at or below $10,000.

- Some 11.6 million renter households in 1985 had incomes of $10,000 or less, but only 7.9 million units rented for $250 a month or less. These data reflect a sharp change in the low income housing market since the 1970s.

- Moreover, the low income housing shortage was substantially more severe by 1985 than these numbers would indicate. First, some 800,000 of the 7.9 million units renting for $250 or less were vacant in 1985. They were vacant in part because they had structural deficiencies or were located in areas not considered habitable and in part because of normal turnover in rental housing markets. Second, these low rent units were not restricted to poor tenants -- and nearly one-third of the occupied low rent units were occupied by renters who were not low income households.

The shortage of affordable housing was most severe for those who were the poorest: renter households with incomes below $5,000 a year.

- Some 5.4 million renter households in 1985 had incomes this low. For housing to have consumed no more than 30 percent of the incomes of these households, it would need to have rented for no more than $125 per month.

- Yet while there were 5.4 million households with incomes this low, only 2.1 million rental units had monthly costs of $125 or less.

The high housing costs borne by poor households stand in sharp contrast to the housing burdens of more affluent households.

- While 63 percent of poor renters paid more than half their income for housing, only eight percent of non-poor renters paid that much. Similarly, while 46 percent of poor homeowners paid more than half of their income for housing, just four percent of non-poor homeowners paid at this level.

- The data show quite clearly that as income rises, the portion of income spent on housing declines. While the typical household with income of less than $5,000 paid at least 69 percent of its income for rent in 1985, the typical household with an income of $20,000 to $25,000 spent 19 percent of its income for housing, and the typical household in the $40,000 to $60,000 range spent 14 percent of income for housing.

Factors Contributing to the Affordable Housing Squeeze

The increase in the shortage of low-rent housing since 1978 can be attributed primarily to a sharp increase in the number of poor families, a decline in the average incomes of poor families, a substantial reduction in the number of low rent units in the housing stock, and a resulting increase in rental charges.

- Between 1978 and 1985, the number of poor households rose 25 percent, from 10.5 million households in 1978 to 13.3 million in 1985.

In addition, those who are poor have grown poorer. In 1978, the typical poor family had an income that fell $3,362 below the poverty line. By 1985, the typical poor family's income fell $3,999 below the poverty line -- further below than in any year since 1959, when such data were first collected.

While the number of poor households has increased, the number of units renting for $250 or less (30 percent of a household's income at the $10,000 income level) has declined. There were 9.7 million such units in 1970, but only 7.9 million in 1985. This represents a loss of 1.8 million low-rent units from the housing stock, a 19 percent decline.

A growing number of poor households competing for a shrinking number of low-cost units has contributed to increasing housing costs for the poor.

- In 1978, the typical poor renter household spent $229 a month for rent and utilities (in 1985 dollars).

- By 1985, the typical poor renter paid $266 a month for housing, an increase of 16 percent, after adjusting for inflation.

Large declines in household incomes and increases in housing costs have driven housing out of the affordable range for many low income households.

Substandard and Overcrowded Housing

Not only do the poor pay much higher proportions of income for housing than the non-poor, but they are also more likely to live in housing with moderate or severe physical problems. Some 2.7 million poor households lived in substandard housing in 1985.

- More than one of every five poor renters -- and one in every six poor homeowner households -- lived in housing that HUD classified as having physical deficiencies.

- By contrast, one in ten non-poor renters -- and fewer than one in 20 non-poor homeowners -- lived in housing units with deficiencies.

- Similarly, while poor households constituted 15 percent of all households, they occupied 39 percent of the units with signs of rats, 46 percent of those with holes in the floor, 32 percent of those with cracks in the walls, 29 percent of those with exposed wiring, and 31 percent of those with peeling paint.

Poor households are more than three times as likely as non-poor households to live in overcrowded conditions. (A housing unit is considered overcrowded if it houses more than one person per room.)

- In 1985, some 7.5 percent of poor households lived in overcrowded conditions, compared with two percent of households that were not poor.

- Among poor renters, one in eleven (nine percent) lived in overcrowded quarters, while 3.2 percent of non-poor renters lived in such conditions.

A large majority of low income households that live in substandard or overcrowded conditions also pay large proportions of their incomes for the inadequate housing they occupy.

Gaps in Government Assistance

For most poor households overburdened by high housing costs, government assistance through subsidized housing programs is not available. Fewer than one in three poor renter households (29 percent) received any kind of federal, state or local rent subsidy or lived in public housing in 1987.

Unlike other "safety net" programs, the poor are not legally "entitled" to housing assistance even if they meet all eligibility criteria. Rather, the number of households served each year is determined by the level of funding appropriated by the Congress. Applicants for housing assistance are often placed on waiting lists and must often wait several years before getting assistance. Many localities have closed their waiting lists because requests for assistance from eligible low income households so far outruns the available supply.

The 1980s have witnessed a declining federal commitment to assist poor households with their housing needs. As noted, the number of low income renter households has increased markedly over the past decade, while the number of low rent units in the private market has declined. As a result, the number of households assisted through government housing programs must rise substantially each year just to keep the shortage of affordable housing from growing larger.

- From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide federal rental assistance to an average of 316,000 additional households per year. From fiscal year 1981 through fiscal year 1988, however, the number of housing commitments to serve additional households dropped sharply, to an average of 82,000 per year. The number of additional low income renters being provided housing assistance each year fell by nearly three-fourths.

- Retrenchment also occurred in the number of new households assisted each year through the rural housing programs of the Farmers Home Administration.

- Had the number of units added to the subsidized housing stock in the 1980s continued at the rate as in the late 1970s, some 1.8 million more low income households would be receiving housing assistance than are currently served.

The steep decline in new housing commitments in the 1980s -- coming at a time of substantial growth in the number of poor households, and of substantial decline in the privately owned stock of low rent housing -- has led to a large increase in the number of poor households that *do not* receive any housing assistance.

- In 1979, some four million poor renter households received no housing assistance.
- By 1987, this number had grown to 5.4 million, an increase of more than one third.

In contrast to the decline in the federal commitment to low income housing assistance, there has been a substantial increase in a form of federal housing assistance that primarily benefits middle and upper income families. Each year the federal government provides billion of dollars in benefits to homeowners by allowing deductions -- primarily for mortgage interest payments and property taxes -- from the amount of income that is taxable by the federal government. Such subsidies that result from tax deductions, credits or other tax breaks are called "tax expenditures."

- In fiscal year 1988, direct spending on federal low income housing assistance programs was $13.9 billion. In that same year, federal tax expenditures for housing totalled $53.9 billion.
- In fact, the amount of federal housing tax expenditures in just the past two fiscal years ($107.4 billion) is approximately equal to the amount of money spent directly on all low income subsidized housing programs during the 1980s ($107.7 billion).

As a result, federal housing subsidies are strongly tilted toward those who are already most affluent. The number of households with incomes below $10,000 a year is nearly the same as the number of households with incomes over $50,000 a year. Yet, the total amount of federal subsidies (from both subsidized housing programs and tax benefits) going to the higher income group is more than three times the amount going to the lower income group.

Future Trends for Subsidized Housing

Most national analyses forecast that the gap between the number of low income households and the number of units affordable by these households will grow substantially larger in the years ahead.

One of the reasons for the anticipated sharp growth in the shortage of low income housing is that many of the commitments under existing federal low income housing programs are scheduled to expire in the years ahead. Under one set of programs -- Section 8 certificates and vouchers -- private owners enter into contracts with a government housing agency to make their units available to low income tenants for a specified time period (usually five or 15 years), with the federal government paying that portion of the rent that exceeds 30 percent of a poor household's income.

- In the next five years, contracts covering nearly one million such units -- almost one-fourth of all federally-assisted rental units -- will expire. If these contracts are not renewed or continued in some form, owners will have the option of raising rents and converting the units to occupancy by a higher income clientele, converting the units to condominiums or shifting them to non-housing uses.

Under another set of federal housing programs, the federal government has been providing mortgage subsidies to private developers who in turn agree to lease their units to low and moderate income tenants for 40 years.

Developers participating in this program have the option to "pre-pay" their mortgage after 20 years and thereby free themselves of any further obligation to rent their units to low income households. For many of these units, the 20-year period is nearly up. A large number of such units are likely to be converted to housing for people at higher income levels, unless action is taken to prevent this from occurring.

- The National Low Income Housing Preservation Commission estimates that 66 percent of the subsidized housing that is provided under these programs and is eligible for prepayment -- some 243,000 units -- could be removed from the subsidized housing stock if no governmental action is taken.

Finally, the federal subsidy levels provided for many public and privately owned subsidized units appear not to have been adequate to maintain the units in decent condition. Many units are in disrepair and in need of maintenance or rehabilitation.

- A major study of the renovation needs of public housing units, conducted under contract with HUD, found that more than half of public housing households now live in projects needing moderate to substantial rehabilitation just to meet HUD's mandatory quality standards. The study estimated that the total costs for meeting just the backlog of major capital repairs would exceed $20 billion.

- The federal funding provided for such repairs totalled just $1.6 billion in fiscal year 1989. The Bush Administration has proposed to reduce this funding level by more than one-third, to $1 billion in fiscal year 1990.

Characteristics of Poor Households

Most poor households have very low incomes, consist of three or fewer people, and are white. However, black and Hispanic households are far more likely to be poor than are white households.

The poverty line for a family of three in 1985 was $8,573. Yet in 1985, more than three-fifths of all poor households (61 percent) had incomes below $5,000.

Poor households were relatively small in size: nearly three of four poor households had three or fewer people. Overall, more than half of all poor households were headed by a woman, many by a single elderly woman living alone.

Poor renters and poor homeowners differed from each other in a number of ways. Poor homeowner households were more likely to be headed by an elderly person, to have no children and to be married. The typical head of a poor homeowner household was aged 62. In contrast, poor renter households were more likely to be younger, to have children and to be headed by a single parent (although female-headed households of two or more persons constituted only a little more than one-third of all poor renter households). The typical head of a poor renter household was aged 38.

Of the 13.3 million poor households in 1985, some 8.1 million -- or 61 percent -- were white. While whites comprised a majority of poor households, blacks and Hispanics accounted for a highly disproportionate share of these households.

- Blacks comprised 11 percent of all households, but 26 percent of poor households. Similarly, Hispanics comprised six percent of all households, but 11 percent of poor households.

Housing Problems of Black and Hispanic Households

Black and Hispanic households face particularly severe housing problems. They are more likely to have excessive housing cost burdens and to live in crowded or substandard housing than are white households.

- In 1985, some 42 percent of all black households (including poor and non-poor), and 42 percent of all Hispanic households spent at least 30 percent of their income for housing. In contrast, some 27 percent of all white households had housing costs of this magnitude.

The high housing cost burdens of black and Hispanic households reflect, in part, the fact that blacks and Hispanics are more likely to have low incomes than whites.

- More than one of every three black households (35 percent) was poor in 1985, were more than one in every four Hispanic households (28 percent). Among white households, one in nine (11 percent) was poor in 1985.

Because poor households generally spend a greater proportion of their income on housing than do non-poor households, and because black and Hispanic households are more likely than white households to be poor, they are also more likely to bear high housing cost burdens.

While blacks and Hispanics in general bear significantly higher housing cost burdens than do whites, housing cost burdens for *poor* whites are as severe as the housing burdens borne by poor blacks and Hispanics. In fact, the proportion of poor white households with housing costs in excess of 30 percent of income actually *exceeds* the proportion of poor black and Hispanic households with housing costs of this magnitude. While 77 percent of poor black households and 79 percent of poor Hispanic households paid more than 30 percent of income for housing in 1985, some 82 percent of poor white households bore housing costs this high. However, because black and Hispanic households are more than twice as likely to be poor as white households, they are more likely to face the high housing costs associated with poverty.

Blacks and Hispanics are less likely to own their homes than are whites. While black and Hispanic households are typically renters, white households are typically homeowners.

- In 1985, some 40 percent of all Hispanic households, and 44 percent of all black households, were homeowners. More than two-thirds of all white households -- 68 percent -- owned their homes.

- In fact, the proportion of *poor* white households that own their homes -- 46 percent -- is greater than the proportion of *all* black and Hispanic households that are homeowners.

In addition to bearing high housing cost burdens, blacks and Hispanics are also more likely than whites to live in housing that is substandard or overcrowded.

- Blacks and Hispanics constituted 17 percent of all households in 1985, but 42 percent of the households living in substandard conditions.

Poor black and Hispanic households were more than twice as likely as poor white households to live in substandard housing.

- Some 33 percent of poor black households, and 27 percent of poor Hispanic households, lived in substandard housing in 1985. In contrast, 14 percent of poor white households lived in such conditions.

- In fact, the proportions of *non-poor* black and Hispanic households living in substandard conditions was greater than the proportion of *poor* white households living in such conditions.

Poor blacks and Hispanics are also more likely to live in overcrowded conditions than are poor white households. More than one in six poor Hispanic households lived in overcrowded conditions in 1985, as did one in nine poor black households. In comparison, fewer than one in twenty poor white households lived in such conditions.

Housing Problems of the Elderly and Young Families

Elderly households, including poor elderly households, are more likely to be homeowners and to have paid off their mortgages than households that are not elderly. In 1985, 74 percent of elderly households were homeowners. By comparison, some 61 percent of non-elderly households owned their homes.

The differences in rates of homeownership are even greater among poor elderly and non-elderly households. Nearly six of ten poor elderly households (57 percent) were homeowners in 1985. In contrast, only 30 percent of poor non-elderly households owned their homes.

Despite these rates of homeownership, many elderly households that are poor bear high housing costs. Nearly three of four poor elderly households spent at least 30 percent of their income on housing in 1985, thereby exceeding the federal affordability standard. In contrast, one of four elderly households that are *not* poor had housing costs of this magnitude.

It should be noted that poor elderly households typically have lower housing cost burdens than poor households that are not elderly. In part, this reflects the higher rate of homeownership, and ownership free of mortgage payments, of poor elderly households relative to poor non-elderly households.

While the elderly poor bear lower housing costs than the non-elderly poor, the housing cost burdens of the entire elderly population -- including both the poor and the non-poor -- substantially exceed the housing cost burdens of the non-elderly population.

- In 1985, three out of five elderly renters (61 percent) spent at least 30 percent of their income on housing, compared with two of five non-elderly renters (44 percent).
- One of four elderly homeowners paid at least 30 percent of their income for housing, compared with one of five non-elderly homeowners.

This is due, in significant part, to the large proportion of the elderly population with relatively low incomes. About half of all elderly households had income below twice the poverty line in 1985. (Twice the poverty line equalled $10,312 for an elderly person living alone.) Fewer than one-third of non-elderly households had an income of less than twice the poverty line.

Young Single-Parent Families

According to a recent study prepared by the Joint Center for Housing Studies of Harvard University, single-parent families where the head is under 25 years of age face particularly serious housing problems.

- In 1974, the typical young single-parent renter household spent 46 percent of its income for housing. By 1987, the housing cost burden for this household family had grown to 81 percent of income. Moreover, in 1987, nearly one in four young single-parent families lived in substandard housing conditions.
- In large part these conditions reflect the low -- and declining -- incomes of young single-parent households. In 1987, the typical young single-parent household had an income of $4,859, which represents a drop of 36 percent, after adjusting for inflation, since 1974.

The same study also reveals that the housing cost burdens of *all* young households -- including single-parent families, married couple families, and single individuals -- have risen more in recent years than have the housing burdens of any other age group.

* * * * *

For most low income households, housing has become an increasingly unaffordable commodity. With nearly two of three poor renters and nearly half of all poor homeowners paying more than 50 percent of income for housing -- and with substantial numbers paying more than 70 percent of income for housing -- little money remains for other necessities.

These high housing cost burdens have serious implications. The severe low income housing shortage is likely to have contributed substantially to the growing problem of homelessness. In addition, these housing cost burdens are likely to have intensified other problems such as the incidence of hunger. The likelihood that a poor household will be without adequate food for part of a month is considerably greater when the household's rent consumes so much of its income that too little money is left to buy food to last through the month.

The future now looks ominous for affordable housing. The data on national trends and housing conditions suggest that just as the affordable housing problems worsened dramatically for low income households between the mid-1970s and the mid-1980s, so too are they likely to deteriorate further in the years ahead unless major changes are made in government policies and in the actions of the private sector.

I. THE HOUSING BURDENS ON POOR HOUSEHOLDS

Under standards established by the U.S. Department of Housing and Urban Development, housing is considered affordable for a low income household if it consumes no more than 30 percent of the household's adjusted income.[1] By this HUD standard, four of every five poor households in the United States are unable to find affordable housing.[2]

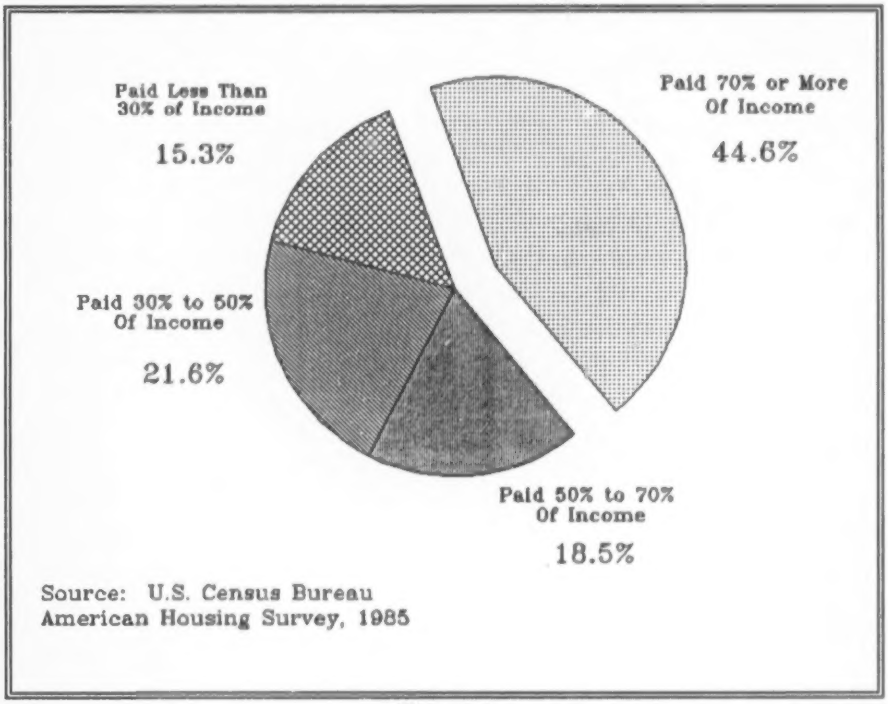
Poor Renter Households

In 1985, about three of every five households living below the poverty line were renters. (The poverty line in 1985 was $8,573 for a family of three.) These poor renter households devoted extremely large portions of their limited incomes to cover the basic housing costs of rent and utilities. (See Figure 1.)

- Some 45 percent of all poor renter households -- or 3.1 million poor households -- paid at least 70 percent of their incomes for housing costs (i.e., rent and utilities).[3]
- The typical (or median) poor renter household paid 65 percent of its income for housing. That is, half of all poor renters had rent and utility burdens exceeding 65 percent of their income, while the other half had rent burdens below this level.[4]
- Nearly two of every three poor renters (63 percent) -- or 4.3 million households -- paid at least half of their income for rent and utilities.

- Some *85 percent* -- 5.8 million poor renter households -- paid at least 30 percent of their income for rent and utilities, thus exceeding the amount considered affordable for these households under the federal standard.[5]

Moreover, some housing studies have found that after meeting other basic needs, many poor households, particularly large households, cannot afford as much as 30 percent of income for housing. Thus, a number of housing analysts believe HUD's 30-percent-of-income standard to be too high. An alternative concept of affordability is presented in Appendix A. Because this report uses 30 percent of income as the standard for affordability, its findings may be considered conservative in their portrayal of the nation's low income housing problems, particularly for large households.



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 1
Percent of Income Spent on Housing
By Poor Renters, 1985

In addition, Census Bureau data do *not* include most of those households who are homeless.[6] As a result, these data are likely to understate the proportion of poor households that face serious housing difficulties.

These extremely high rent burdens leave most poor renter households with little income for other living expenses. For example, a family of three with income at the poverty line ($8,573 in 1985) had an average monthly income of $715. If the family spent 65 percent of this income for rent and utilities, as the typical poor renter did in 1985, it would have only $250 a month remaining for food, clothing, transportation, and other expenses.[7]

In reality, most poor renter households had budgets tighter than this example, because the typical poor household had an income level well below the poverty line. The Census data show that the typical poor renter household had an income of less than $5,000 in 1985[8] (equivalent to about $5,500 in 1988, after adjusting for inflation).[9] If this household typically spent 65 percent of its income for rent and utilities, it would have only $145 per month -- or less than $35 a week -- remaining for all other cash expenses for all household members.

As noted, under the HUD standards, affordable housing should consume no more than 30 percent of a poor household's income. Under this standard, the typical poor renter household (assuming its income is $5,000) could afford to spend no more than $125 a month ($1,500 a year) on rent and utilities. Yet the typical poor renter household actually spent far more than this on housing costs. The data show that the typical poor renter household incurred housing costs of $266 a month in 1985, more than *twice* the maximum "affordable" amount for this household.

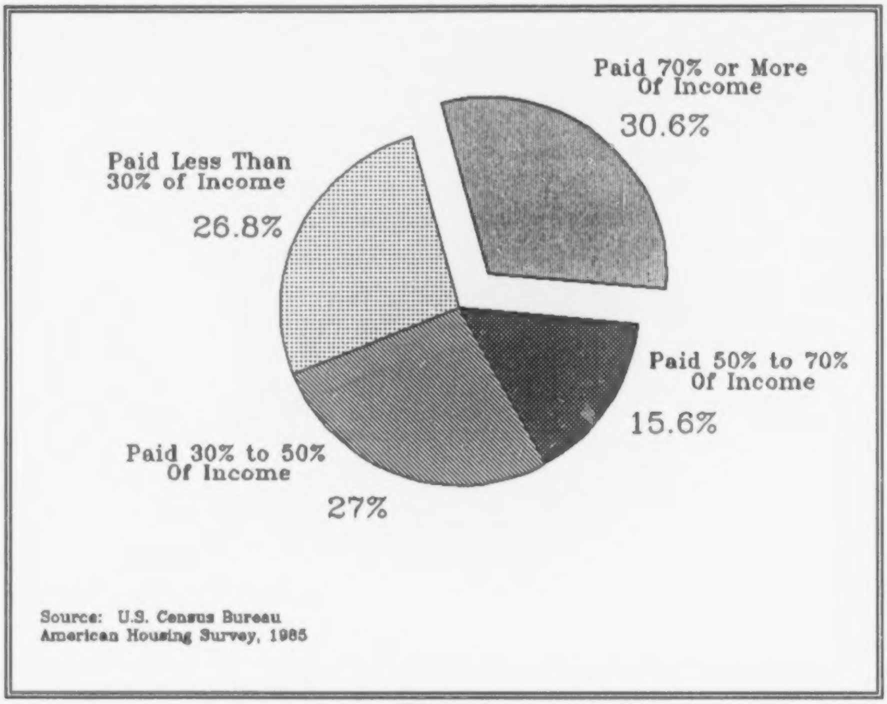
Poor Homeowners

Most poor homeowners bore high housing costs as well, although the housing cost burdens of poor homeowners were not as severe as those of poor renters.

- Nearly one of every three (31 percent) poor homeowners -- some 1.3 million -- paid at least 70 percent of income for housing costs in 1985.[10]
- Nearly half (46 percent) of all poor homeowners -- 2.0 million -- paid more than 50 percent of income for housing. Nearly three quarters (73 percent) -- some 3.1 million poor homeowners -- paid more than 30 percent of income for housing.
- The typical poor homeowner household paid nearly half its income (47 percent) for housing in 1985.

The incomes of poor homeowners, like those of poor renters, generally fell far below the poverty line. The typical (or median) annual income level for both groups was below $5,000 in 1985.

Nearly two of three poor homeowners (66 percent) had paid off their mortgages and owned their homes without financial encumbrances. This high percentage reflects the fact that many poor homeowners were elderly and had owned their homes for long periods of time. Yet as the data cited above indicate, even a substantial number of homeowners who had paid off their mortgages still paid high proportions of income for housing. This was due to the high costs many homeowners incur for utility bills and expenses such as property insurance, property taxes and home maintenance.[11]



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 2
Percent of Income Spent on Housing
By Poor Homeowners, 1985

The Census data indicate that the typical expenses for electricity, property insurance, property taxes, heating fuel and water bills exceeded $150 a month for poor homeowners incurring these costs in 1985, or 35 percent of the typical poor homeowner's income.[12]

Sharp Increases in Housing Cost Burdens for the Poor Since the Mid-1970s

Both the number and the percentage of poor households who pay excessive amounts of their incomes for housing have grown sharply since the late 1970s when housing cost data for poor households were first collected. The most severe increases in housing cost burdens have occurred among poor renters.

- In 1978, some 44 percent of poor renter households paid at least 60 percent of their incomes for rent and utilities. By 1985, some 55 percent of poor renters were paying 60 percent of their income for housing costs.
- The number of poor renters paying at least 60 percent of income for housing grew during this seven year period by 1.4 million -- from 2.3 million to 3.8 million.
- In 1978, some 72 percent of poor renters paid at least 35 percent of income for housing. By 1985, 79 percent of poor renters paid this much.[13]

Table I
The Increasing Housing Cost Burdens
of Poor Households, 1978-1985

	POOR RENTERS		POOR OWNERS	
	1978	1985	1978	1985
Paid 35% of Income Or More on Housing	72.0%	79.3%	55.1%	65.3%
Paid 60% of Income Or More on Housing	44.0%	54.6%	30.6%	38.1%

Affordability problems have grown among poor homeowners as well, as Table I above indicates.

- The proportion of poor homeowners who paid at least 60 percent of their income for housing increased from 31 percent of such households in 1978 to 38 percent in 1985 -- an increase of nearly one-fourth.

- The number of poor homeowners bearing cost burdens of at least 60 percent increased by more than 84 percent, from 886,000 in 1978 to more than 1.6 million in 1985.

- Similarly, the proportion of poor homeowners who paid more than 35 percent of their income for housing costs grew from 55 percent in 1978 to 65 percent in 1985. The number of such poor homeowners rose from 1.6 million in 1978 to 2.8 million in 1985.

Low Income Housing: Supply and Demand

A useful way to examine the affordability problems faced by low income households is to compare the number of households with low incomes to the number of low-rent units in the housing stock. In this comparison, low income households are defined as those households with incomes of less than $10,000. Low rent units are those for which rent and utility costs equal no more than 30 percent of a $10,000 annual income. Thus, a low rent unit would be one that cost no more than $250 a month. (All figures for years prior to 1985 are adjusted for inflation to be comparable to 1985 dollars.)

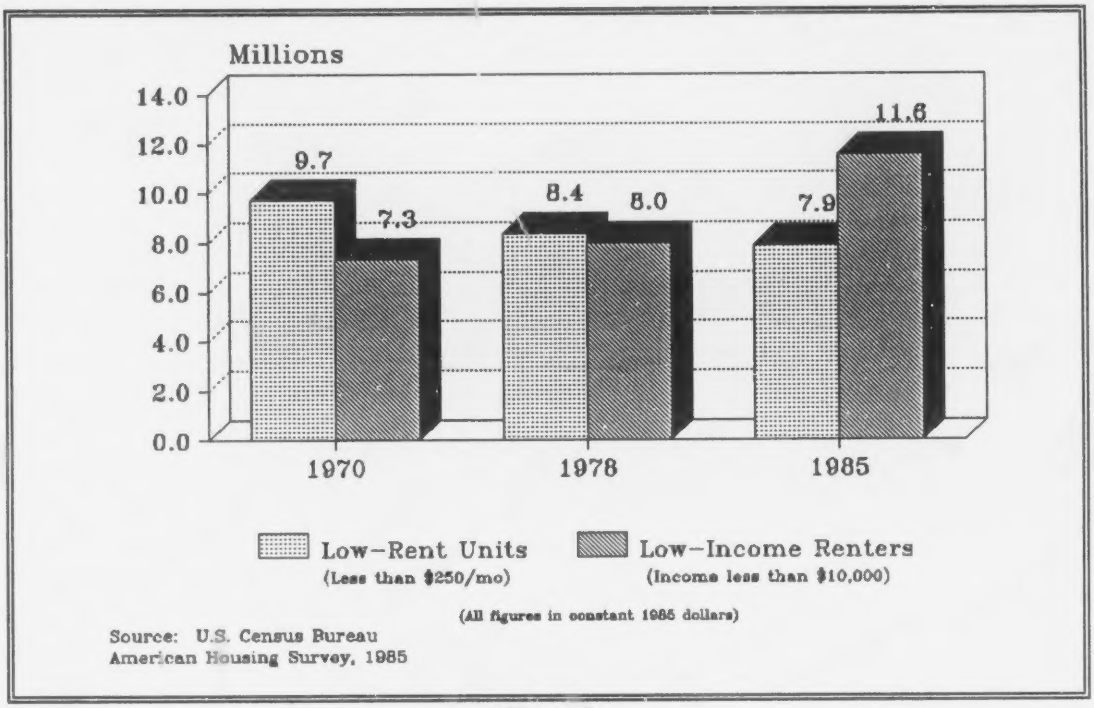
In 1970, the number of low rent units in the nation exceeded the number of low income renter households. By 1978, the number of low cost housing units nearly matched the number of low income households. But by 1985, the number of affordable rental units had fallen far behind the number of low income households.

- In 1970, the number of low rent units was 9.7 million. This was approximately 2.4 million greater than the number of low income renter households.

- Between 1970 and 1978, there was a slight decline in the number of low cost units and a modest increase in the number of low income renter households. Despite these changes, *there were still 370,000 more low cost rental units than low income renter households in 1978.*

- By 1985, however, there were *3.7 million fewer* low rent units than there were low income renter households -- 11.6 million renter households but just 7.9 million low rent units.

Thus, in just the seven years from 1978 to 1985, the number of low rent units declined by half a million while the number of low income renters rose by 3.6 million. These data reflect a sharp change in the nation's low income housing market.



(All figures in constant 1985 dollars)

Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 3
Low-Income Renters and
Low-Rent Units
1970, 1978, and 1985

Moreover, these comparisons of the number of low income households to the number of low rent units seriously understate the extent of the low income housing shortage, because they do not take into account the condition or location of the units or whether the units are actually occupied by low income households. For example, of the 7.9 million units with costs of less than $250 in 1985, some 804,000 were vacant. They were vacant in part because of the natural turnover in rental housing markets and in part because they had structural deficiencies or were located in areas not considered habitable.

Furthermore, these low rent units were not restricted to tenants with low incomes. Many low rent units are occupied by renters who are *not* low income households. This further reduces the low rent housing supply that is available for those who do have limited incomes.

- In 1985, only 4.8 million of the 7.1 million occupied rental units that cost less than $250 per month were actually occupied by households with incomes below $10,000 a year.

- Hence, of the 11.6 million renter households with incomes below $10,000, only 4.8 million -- or well under half -- lived in units with costs of less than $250 a month.

These comparisons of the growing disparity between the number of low-income renters and the number of low rent units document a large and growing shortage of affordable housing. It should be noted that these data portray only one aspect of the housing problems with which low income households must contend. Not only do low income households pay much larger shares of their incomes for housing than do more affluent households, but low income households are also much more likely to live in substandard or poor quality housing and in overcrowded conditions. (These issues are explored in more detail in Chapter III.) Low income households are also more likely to live in dangerous or run-down neighborhoods.

Poorest Face Most Serious Shortage

The shortage of affordable housing is most severe for the poorest households: renter households with incomes of less than $5,000 a year.

In 1985, some 5.4 million renter households (one of every six renters in the nation) had incomes of less than $5,000. For housing to consume no more than 30 percent of the income of these "very poor" households, a unit would need to cost no more than $125 per month (or $1,500 per year) for rent and utilities.

While there were more than five million renter households with incomes this low, only 2.1 million rental units had monthly rent and utility costs of $125 or less. Even if every one of these units had been occupied by a very low income household (which was not the case), more than three of every five very poor renter households would have been unable to live in a unit costing no more than 30 percent of their income (see Figure 4).[14]

The poorest renters faced a much tighter housing market in 1985 than in the 1970s.

- In 1970, the number of rental units that cost no more than 30 percent of the income of a household earning $5,000 (i.e., no more than $125 a month) was only slightly smaller than the number of renter households with incomes of $5,000 or less.

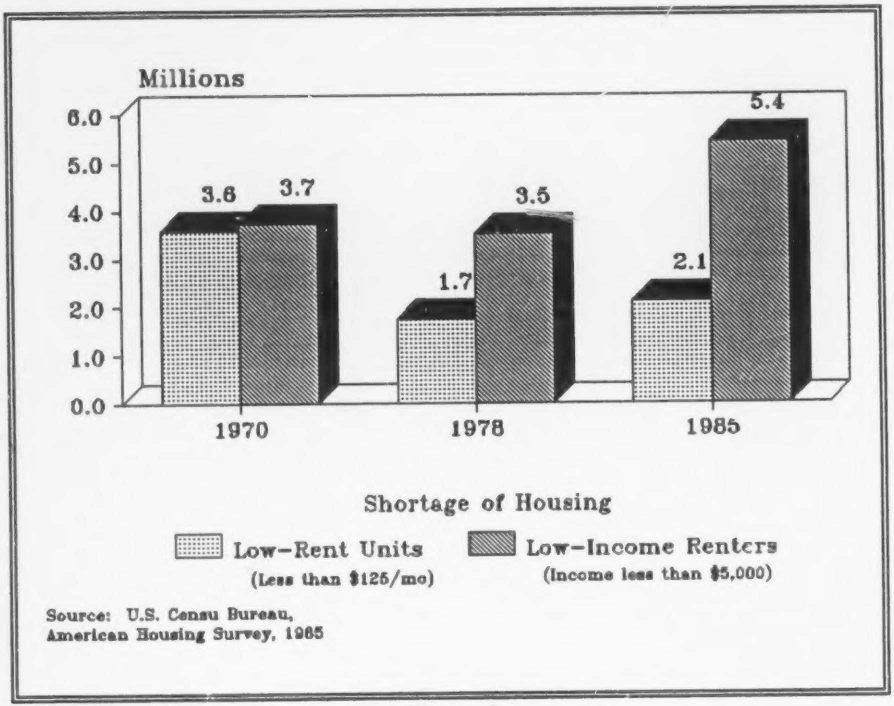


Figure 4
Rental Housing Shortage for
Households Earning $5,000 or Less,
1970 - 1985

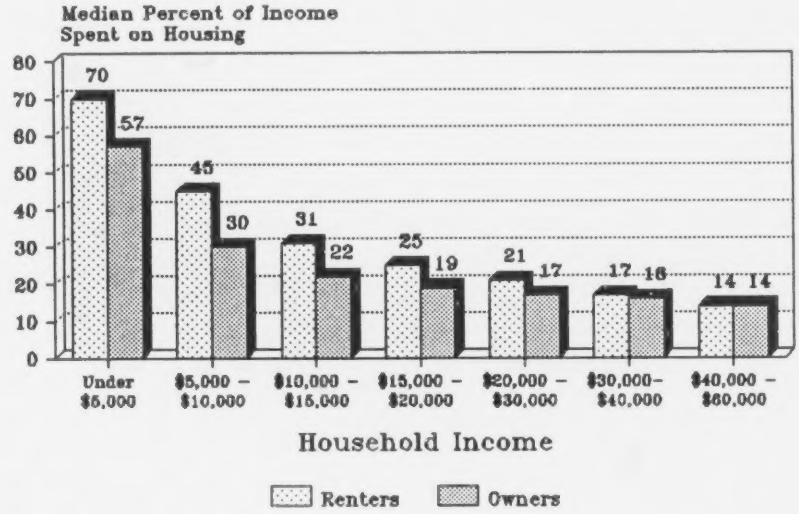
- Between 1970 and 1978, there was a modest decline in the number of households with incomes below $5,000, but a substantial decline in the number of low cost units. In 1978, there were 1.8 million fewer low cost units than renter households with incomes of $5,000 or less.

- By 1985, the shortage of units affordable for households with incomes below $5,000 had grown to 3.3 million -- an increase of more than 80 percent since 1978.

Many Non-Poor Households Pay High Housing Costs

Although the affordable housing squeeze has been most severe for poor households, many households with incomes above the poverty line bear high housing costs as well. In 1985, nearly one of every three (31 percent) *non-poor* renter households had housing costs in excess of 30 percent of income. More than one in every six (17 percent) non-poor homeowners bore such housing costs.

Despite these figures, however, poor households were much more likely to bear extremely high housing costs in relation to income than non-poor households. Eight percent of non-poor renter households had housing costs that exceeded half of their income, but more than 63 percent of poor renter households bore costs of this magnitude. Similarly, only four percent of non-poor homeowners had housing costs that consumed more than half of their incomes, while 46 percent of poor homeowners had such costs.



Source: U.S. Census Bureau, American Housing Survey, 1985

Figure 5
Percent of Income Spent on Housing,
By Income Class, 1985

Wealthy Pay Smaller Portion of Income for Housing

While many non-poor households spend a large portion of their incomes for housing, the overall pattern is clear: as household income rises, the portion of it spent on housing declines. As Figure 5 shows, for both renters and owners, the percentage of income devoted to housing falls sharply as household income increases.

While the typical household (including both renter and homeowner households) with income under $5,000 paid at least 69 percent of its income for housing costs in 1985, the typical household with an income of $20,000 to $30,000 spent 19 percent of its income for housing. The typical household with income in the $40,000 to $60,000 range paid 14 percent.

Moreover, the tax benefits of homeownership are not included in the Census data on the percentage of income spent for housing. If these tax benefits -- primarily deductions of mortgage interest and property taxes -- were taken into account, the percentage of income spent on housing would drop even more as income rises and the disparity between upper income and lower income households in the percentage of income spent on housing would be still greater.

Chapter Notes

1. Until 1981, housing was considered affordable by HUD if it consumed no more than 25 percent of adjusted household income. This standard was raised to 30 percent of adjusted income in conjunction with federal budget reductions enacted in 1981. Adjustments in household income include: a deduction of $480 a year for each dependent child under 18, each disabled or handicapped family member, and each full-time student over 18 living at home; a deduction of $400 a year for an elderly family; and a deduction for the amount by which the sum of the following household expenses exceeds three percent of total household income: medical care for elderly family members, care and equipment for handicapped family members which allow family members to work or go to school, and child care needed to allow family members to work or go to school. Cost burden figures for this report come from the Census Bureau's American Housing Survey, which includes cost estimates based on unadjusted income figures only.

2. This report uses the definition of "household" used by the Census Bureau in the American Housing Survey, which consists of all people who occupy a housing unit. A household may consist of a single family, one person living alone, two or more families living together, or any other group of related or unrelated people who share living arrangements. The Census Bureau defines a "housing unit" as "a house, an apartment, a group of rooms, or a single room occupied or intended for occupancy as separate living quarters."

3. The American Housing Survey includes a number of renters who reported that they paid no cash rent or who reported zero or negative income. In its published data tables, the AHS does not calculate the monthly housing costs as a percentage of income for either of these types of households. To be consistent with the American Housing Survey, all calculations in this report of the proportion of renters paying a given percentage of their incomes for rent exclude households with zero or negative income or that pay no cash rent.

4. The median (or typical) renter household is the household whose income falls exactly in the middle of the income distribution of all renter households. Thus, half of all poor renter households have incomes below that of the median poor renter household, while the other half of poor renter households have incomes exceeding that of the median poor renter household.

5. While the data reflected here are for 1985 (the latest year for which Census data on housing cost burdens are available), the housing cost burdens of low income households are not likely to be appreciably different today than in 1985. Census data show that the average income of the poorest fifth of all U.S families rose 11 percent from 1985 to 1987 (without adjustment for inflation), but that residential rental costs rose 10.1 percent during the same period. Moreover, this 10.1 percent increase in rent applies to the entire rental housing market, rather than just to the low income housing market. Since most new housing construction has been aimed at middle or uppper income families, it is likely that the rental costs faced by low income households rose more rapidly during this period than the 10.1 percent general rental cost increase would indicate.

   In addition, data compiled by the Congressional Budget Office on "adjusted family incomes" (family incomes adjusted by family size) show that family income rose little, stagnated, or even fell from 1985 to 1987 for several key low income groups. For example, the income of poor single-parent families fell during this period, after adjustment for inflation; as did the incomes of poor families with children in which the family head is under age 25. For low income families in which the family head was aged 25 to 34, incomes stagnated.

6. The Census Bureau will attempt to include homeless people in its decennial Census for the first time in 1990.

7. As used here, household income includes cash income from all sources, including wages, public assistance, unemployment insurance, and Social Security benefits. It does not include non-cash benefits, such as food stamps or medical insurance. In computing housing cost burdens as a percentage of income, the Census Bureau uses what it terms "the family and primary individual" measure of household income. The same measure of household income is used throughout this report.

8. The Census Bureau data indicate that the median income of poor renter households is less than $5,000 but do not provide a precise figure. However, nearly two thirds of all poor renters had incomes of less than $5,000. Also, 3.3 million poor renter households -- or two fifths of all such households -- had incomes of less than half of the poverty line (or less than $4,300 for a family of three in 1985).

9. All adjustments for inflation use the Consumer Price Index experimental series for urban wage earners (CPI-X) as published in the *Economics Reports of the President, 1983* and *1986* rather than the official Consumer Price Index published by the Bureau of Labor Statistics (BLS). In the late 1970s, the official Consumer Price Index overstated inflation in consumer prices because of an overestimation of the rise in housing costs. The BLS corrected this problem in 1983 but did not revise the CPI for earlier years. The CPI-X series incorporates the corrected methodology for the years prior to 1983. For 1983 and thereafter, the official CPI and the CPI-X use the same methodology and provide the same inflation estimates. For the adjustment noted in this paragraph, the results would be the same using the official CPI or the CPI-X.

10. The American Housing Survey includes a number of homeowners who did not report mortgage payments or who reported zero or negative income. In its published data tables, the AHS does not calculate the monthly housing costs as a percent of income for either of these types of households. To be consistent with the American Housing survey, all calculations of the proportion of owners paying a given percentage of their incomes for housing costs in this report also exclude households with zero or negative income or that did not report their mortgage payments.

11. The percentages of income spent on housing do not reflect tax benefits provided to homeowners. Many of those homeowners who have not paid off their mortgages and who have earnings sufficient to incur income tax liabilities will receive some benefits from the mortgage interest deduction in calculating federal tax payments. Benefits of a smaller magnitude may also be provided to many homeowners through federal and state deductions or credits for property tax payments (see Chapter IV).

12. The typical (or median) electric bill for poor homeowners with electric bills was $53 a month. Median monthly costs for other bills were: $57 for fuel oil and $50 for gas; $19 for property insurance; $15 for water bills; and less than $25 for property taxes and routine maintenance costs. Virtually all poor homeowners paid property taxes in 1985, while 90 percent paid separate electricity bills, 79 percent paid property insurance fees, 45 percent paid gas charges, 15 percent paid for fuel oil and 53 percent paid water bills. The total figure cited in the text conservatively assumes that the typical poor homeowner spent $50 per month for gas or oil, $10 per month for real estate taxes and $10 per month for routine maintenance.

13. This comparison uses a standard of 35 percent of income because the Census data for 1978 do not provide a comparable 30 percent of income cut-off. The cost burden figures for 1978 are provided from unpublished tabulations of the Census Bureau's 1978 *Annual Housing Survey*.

14. Some renter households with annual incomes below $5,000 have savings that enable their annual expenditures to be somewhat higher than their income levels would suggest. Nevertheless, the magnitude of the affordable housing gap for households in this income bracket (fewer than two affordable units for every five households) indicates that a very large proportion of very low income households are unable to find housing they can afford.

II. FACTORS CONTRIBUTING TO THE HOUSING CRISIS FOR THE POOR

The growth in the shortage of housing for the poor since the late 1970s can be attributed to a number of factors. These factors include rapid growth in the number of poor families, a decline in the incomes of families below the poverty line, a substantial reduction in the number of affordable rental units in the private housing market, and a resulting increase in the rents charged by landlords.

A primary cause of increasing rent burdens among poor renters has been the rapid growth since 1978 in the number of households with incomes below the poverty line.

- Between 1978 and 1985, the number of poor households grew by more than 25 percent -- from 10.5 million to 13.3 million.
- During the same period, the number of poor *renter* households increased by 2.1 million households -- or 36 percent -- to 8.2 million poor renter households in 1985.

Another factor contributing to increasing rent burdens among the poor is that since 1978, those who are poor have grown poorer. The best way to measure the changes in the income of poor families is in relation to the federal poverty line, which is adjusted for family size and annual changes in the cost of living.

- The typical (or median) poor household fell substantially further below the poverty line in 1985 than in 1978 -- or further below the poverty line than in any previous year since the Census Bureau began tracking such data in 1959.

- In 1978, the typical poor family had an income $3,362 below the poverty line. By 1985, the typical poor family's income was $3,999 below the poverty line -- more than $600 further below the poverty line than in 1978. (All figures are adjusted for inflation to be comparable.)

- This trend continued at least through 1987 (the year for which the most recent data are available), when the income of the typical poor family fell $4,165 below the poverty line.[1]

At the same time, the number of rental units available at rents affordable for poor and low income families has declined sharply since the 1970s.

- Between 1970 and 1985, the number of rental units that cost no more than 30 percent of the income of a household earning $10,000 a year (i.e., that had rent and utility costs of no more than $250 a month) fell by 1.8 million units. (Incomes and rents are adjusted for inflation to be comparable to 1985.)

- In 1970, there were 9.7 million such rental units (occupied and vacant). By 1985, only 7.9 million such rental units were available -- a decline of 19 percent since 1970.

The decline in the number of low cost rental units occurred despite an increase in the number of units reserved for low income occupancy through federal housing assistance programs. Between 1970 and 1985, more than 2.9 million rental units were added to the low income housing stock through federal rental subsidy programs.[2] (A fuller discussion of housing assistance is reserved for Chapter IV.) However, the increase in the number of federally subsidized units was far smaller than the decrease in the number of low cost units in the private housing stock, so that the net effect was a shrinkage of the overall low rent housing stock.

Thus, between 1970 and 1985, there was a large growth in the number of poor households, accompanied by a decline both in the typical incomes of those poor households and in the number of low cost rental units available for them. With a larger number of low income households competing for a smaller number of low-cost units, it is not surprising that the Census data indicate that poor renters were forced to pay higher rents (adjusted for inflation) in 1985 than in the 1970s.

- In 1978, the typical poor renter household paid $229 a month for rent and utilities.
- By 1985, the typical poor renter paid $266 a month -- an increase of 16 percent, after adjusting for inflation.

Chapter Notes

1. Another way of analyzing the extent to which poor families have grown poorer is to examine changes over time in the average (or mean) amount by which the incomes of poor families fall below the poverty line. In 1985, the income of poor families fell an average of $4,520 below the poverty line (a figure which climbed to $4,635 in 1987). Using either the mean or the median amount by which poor families fall below the poverty line, the results are consistent: under both measures, poor families fell further below the poverty line in 1987 than in any year in at least a quarter of a century. The data cited here on family "poverty gaps" are from the Census Bureau's Current Population Survey. Similar data are not available from the American Housing Survey.

2. *Current Housing Problems and Possible Federal Responses*, Congressional Budget Office, December, 1988, Figure III-2. The numbers used to create Figure III-2 were provided by the author of the Congressional Budget Office study, Carla Pedone. Figures for 1970 are from "Low Income Housing Needs," a paper prepared by Cushing Dolbeare for the National Low Income Housing Coalition, December 1987.

III. SUBSTANDARD AND OVERCROWDED HOUSING

Not only do poor households bear the burden of high housing costs, but substantial numbers of them also live in substandard housing or in overcrowded conditions. The proportion of poor households living in physically inadequate or overcrowded housing far exceeds the proportion of households in other income groups facing these conditions.

Substandard Housing

A large proportion of poor households live in substandard housing -- that is, in housing units that are determined to have "moderate" or "severe" physical problems. In 1985, some 20 percent of poor households -- one in five -- lived in housing with moderate or severe physical problems. (See box on the following page for the definitions of moderate and severe problems.) Some 2.7 million poor households lived in these conditions.

Poor households were more than three times as likely to live in housing with severe or moderate physical problems as were households that were not poor. Only six percent of non-poor households lived in housing with these problems.[1]

Poor renter households experienced the highest incidence of these deficiencies. Some 22 percent of units occupied by a poor renter household had moderate or severe physical problems, compared with 10 percent of the units occupied by non-poor renters. Poor homeowners were less likely to live in physically inadequate homes than poor renters, but the problem of substandard housing did affect numerous poor homeowners. More than one in six poor homeowners -- 17 percent -- lived in homes that were substandard, compared with fewer than one in twenty -- four percent -- of non-poor homeowners. (See Figure 6.)

HUD's Definitions of Substandard Housing

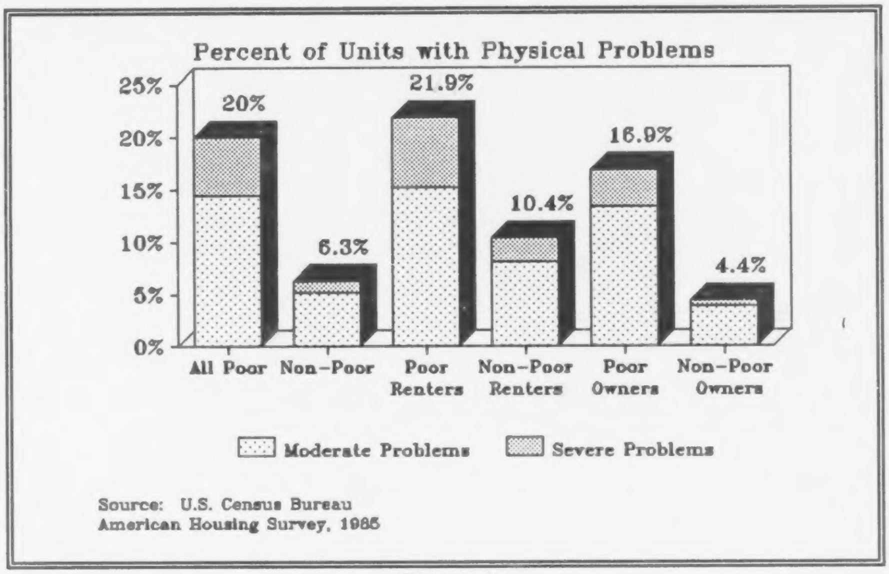
The Bureau of the Census and the U.S. Department of Housing and Urban Development classify housing units according to whether the units have physical or structural deficiencies. A unit is classified as having "severe" physical problems if it has one or more of the following five deficiencies:

- It lacks, within the unit, hot or cold water or a flush toilet, or both a bathtub and a shower;
- The heating equipment broke down at least three times in the previous winter for periods of six hours or more, and this resulted in the unit being uncomfortably cold for 24 hours or more;
- The unit has no electricity, or the unit has exposed wiring *and* has a room with no working wall outlet *and* also has had three blown fuses or tripped circuit breakers in the last 90 days;
- The unit has, in public areas (such as hallways and staircases), nonworking light fixtures *and* loose or missing steps *and* loose or missing railings and no elevator;
- The unit has at least five basic maintenance problems such as water leaks, holes in the floors or ceilings, peeling paint or broken plaster, or evidence of rats or mice in the last 90 days.

A unit is classified as having "moderate" physical problems if it does not have any of the severe problems, but has one or more of the following five deficiencies:

- On at least three occasions in the last three months, all flush toilets were broken down at the same time for at least six hours;
- The unit has unvented gas, oil, or kerosene heaters as its primary heating equipment;
- The unit lacks a sink, refrigerator, or either burners or an oven;
- The unit has three of the four hallway or staircase problems listed above; or
- The unit has at least three of the basic maintenance problems listed above.

Black and Hispanic households are particularly likely to live in physically inadequate housing conditions. Two out of every ten black and Hispanic households -- and three of ten poor black and Hispanic households -- lived in substandard housing in 1985. (This matter will be explored in greater detail in Chapter VII.)



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 6
Substandard Housing

By other measures as well, poor households made up a disproportionate share of the households whose units were afflicted with various problems. While poor households constituted 15 percent of all households in 1985, they occupied 40 percent of the units with evidence of rats, 46 percent of those with holes in the floor, 32 percent of those with cracks in the walls, 29 percent of those with exposed wiring, and 31 percent of those with peeling paint.

Disappointing Progress Over Past Decade

Also of concern is that the number of substandard housing units in the nation's housing stock has failed to decline substantially in recent years. While the Census Bureau has not published data for years prior to 1985 on the proportion of *poor* households living in substandard housing, data for these years that cover all households (poor and non-poor) reveal only modest changes in the number of substandard housing units.[2]

- In 1975, there were 7.7 million substandard units. In 1985, there were 7.4 million such units.[3]

- Moreover, the number of *rental* units considered substandard actually rose during this period -- from 4.2 million such units in 1975 to 4.3 million units in 1985.

Thus, it appears that little progress has been made in reducing the number of substandard housing units in the overall housing stock.

On the other hand, there has been a modest drop in the *percentage* of all households (both poor and non-poor households) living in substandard housing.

- Some 8.3 percent of all households lived in substandard units in 1985, compared to 10.6 percent in 1975.

- Among renter households in all income brackets, the percentage living in substandard conditions declined from 16.4 percent in 1975 to 13.3 percent in 1985.

Overcrowding

According to standards established by the U.S. Department of Housing and Urban Development, a housing unit is considered overcrowded if it houses more than one person per room. In 1985, some 7.5 percent of poor households -- or nearly one million households -- lived in overcrowded quarters.

Overcrowding is greatest among poor renters. Some nine percent of poor renters -- one in eleven -- lived in overcrowded housing in 1985. By contrast, only three percent of non-poor renters lived in overcrowded conditions.

Overcrowding was less common among homeowners than among renters, but here, too, there were marked disparities between the poor and those in other income groups. While one of twenty poor homeowners (five percent) suffered from overcrowding in 1985, fewer than one in seventy non-poor homeowners (1.4 percent) lived in overcrowded conditions. Overall, poor households, including both renters and owners, were more than three times as likely as non-poor households to live in overcrowded housing. (See Table II.)

Black and Hispanic households were particularly vulnerable to overcrowding. In 1985, 13 percent of poor black and Hispanic households lived in overcrowded conditions, compared with four percent of poor white households.

Table II
Rates of Overcrowding Among
Poor and Non-Poor Households, 1985

	Poor	Non-Poor
All Households	7.5%	2.0%
Renters	9.0%	3.2%
Owners	5.1%	1.4%

It should be noted that many poor households living in substandard or overcrowded conditions pay significant proportions of their incomes for the inadequate housing they occupy. Data from a recent Congressional Budget Office report indicate that an overwhelming majority of low income renters living in substandard or overcrowded conditions pay more than 30 percent of their income on housing, thereby exceeding the federal affordability standard.[4] Thus, for a significant number of low-income households, housing is neither decent nor affordable.

Little progress in reducing overcrowding has been made in recent years. The number of poor households living in overcrowded conditions has dropped only slightly since 1978, the earliest year for which such data are available.

- Approximately one million poor households, including renters and owners, lived in overcrowded quarters in both 1978 and 1985.
- The number of poor renter households living in overcrowded quarters has grown from 719,000 in 1978 to 735,000 in 1985, while the number of poor homeowners living in overcrowded conditions has dropped from 311,000 in 1978 to 260,000 in 1985.

There has been, however, a modest decline in the proportion of poor households living in overcrowded conditions.

- The percentage of poor households living in overcrowded conditions declined from 9.8 percent in 1978 to 7.5 percent in 1985.
- The proportion of poor renter households living in such conditions has similarly dropped, from 12 percent in 1978 to nine percent in 1985.

"Doubling Up"

Yet while the proportion of households living in overcrowded conditions has declined, there has been a sharp increase in the number of families that are "doubling up" -- sharing their house or apartment with other families or other relatives or non-relatives. This trend toward "doubling up" is found among poor and non-poor households alike.

In 1985, nearly one in four poor households -- 28 percent -- had either another family[5] or other relatives or non-relatives living with them. This represents a sharp increase over 1978, when nearly one in seven poor households -- 15 percent -- doubled up in one of these ways.

Non-poor households have also experienced an increase in doubling up. In 1978, one in eight non-poor households had either another family or other relatives or non-relatives living with them. By 1985 more than one in four non-poor households (28 percent) was doubling up.

Non-poor households are thus more likely to be doubled up than poor households. This is true primarily because they are more likely to have a single adult child living with them. On the other hand, poor households are more likely to have other types of relatives or another family living with them.

The proportion of poor households that are doubled up through sharing their housing unit with another family has increased significantly since 1978, although they represent a small percentage of poor households.

- In 1978, some 138,000 poor households -- or 1.3 percent of poor households -- were sharing their unit with one or more other families.
- By 1985, the number of poor households doubling up in this manner had grown to 610,000, or 4.6 percent of all poor households.

This evidence suggests that while the rate of overcrowding has declined, a growing number of families and individuals, especially young individuals, are having difficulty finding housing that they can afford on their own.

Chapter Notes

1. For both poor and non-poor households whose units had physical deficiencies, the deficiencies were more likely to be "moderate" than "severe."

2. Irby Iredia, "Attaining the Housing Goal?," Department of Housing and Urban Development, Housing and Demographic Analysis Division, Office of Economic Affairs, July 1986. This is an independent paper, and its views do not necessarily represent those of the Department of Housing and Urban Development.

3. According to HUD officials, the number of substandard housing units reported in the 1985 survey is probably lower than the actual number of such units. Due to the wording of one question in the 1985 survey, HUD officials believe that not all cases of housing quality problems were reported by respondents. Thus, the 1985 survey probably undercounts the incidence of substandard housing in 1985. The wording of the question has been revised for future surveys. There are no such problems with the 1975 survey data.

4. *Current Housing Problems and Possible Federal Responses*, Congressional Budget Office, December 1988. According to this report, more than 80 percent of "very low income" renters who live in overcrowded or substandard conditions (or both) also pay more than 30 percent of their income for housing.

5. Most often, the additional family is a "subfamily," a married couple or single parent with children living in a household and related to the household head or spouse. The additional family could also be a "secondary" family, a married couple or single parent with children *not* related to the householder or spouse. (Secondary families are much less common than subfamilies.)

IV. HOUSING ASSISTANCE FOR THE POOR

Despite the pledge in the federal Housing Act of 1949 of "a decent home and a suitable living environment for every American family," and despite a growing shortage of affordable housing in the private market, the federal government provides housing assistance to only a fraction of those renter households that are poor. Census Bureau data show that fewer than one in three poor renter households now benefit from such aid.

- In 1987, only 2.3 million of the 7.7 million renters with incomes below the poverty line -- 29 percent of such households -- lived in public housing or received a rental subsidy from a federal, state, or local housing assistance program.
- In other words, more than seven of every ten poor households neither live in public housing nor receive a rent subsidy to help meet high housing cost burdens.

A far lower proportion of poor households receive housing assistance than most other forms of basic "safety net" noncash assistance.

- Census data for 1987 show that 71 percent of poor households with school-age children received free or reduced-price school lunches, 42 percent of poor households received Medicaid coverage, and 40 percent received food stamps. In contrast, only 29 percent of poor renters -- and 18 percent of all poor households -- were aided through a housing program.[1]

A primary reason that most other safety net programs serve a larger proportion of poor households than do the housing programs is that most of the other programs are entitlements -- programs for which individuals are "entitled" to benefits if they meet certain eligibility tests. The housing programs are not entitlements, however. Poor households are not legally entitled to federal housing assistance regardless of whether they meet all income and other eligibility criteria for the programs. Rather, the number of households served in the housing programs is limited to the number that can be assisted within the amounts appropriated by Congress for these programs. Applicants for housing assistance are often put on waiting lists and must wait months or even years before getting assistance. Indeed, many communities have closed their waiting lists because demand for assistance so far outruns the available supply.

Large Reductions in Funding for Federal Housing Programs

Moreover, federal housing programs have been subject to sharp budget reductions in the past decade. There are two major sources of low income housing assistance: the U.S. Department of Housing and Urban Development (HUD), which provides most of its assistance in metropolitan areas, and the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture, which administers rural housing programs and assists primarily homeowners rather than renters. According to a recent study of the Congressional Budget Office (CBO)[2]:

- Appropriations for HUD's subsidized housing programs have fallen from a peak of $32.2 billion in fiscal year 1978 to $9.8 billion in fiscal year 1988. After adjusting for inflation, this constitutes a decline of more than 80 percent.[3]

- New lending authority for FmHA's direct loan programs (the best measure of yearly activity in such programs) and appropriations for FmHA's rental assistance programs dropped from $3.7 billion in FY 1978 to $2.1 billion in FY 1988, a decline of nearly 70 percent after adjusting for inflation.[4]

To be sure, part of the decline in appropriations levels reflects a shift in federal housing policy -- from more expensive investment in construction or substantial rehabilitation of low income housing to less costly tenant-based subsidies and housing vouchers that rely on the existing stock of rental housing. (See Appendix B for a brief description of housing programs.)

It should also be noted that the deep reduction in appropriations for subsidized housing during this period is not matched by decreases in actual expenditures (or "outlays") for the housing programs. In fact, outlays on federal housing programs actually rose during this period as the number of low income households receiving housing assistance increased. The spending increase occurred, in part, because funds appropriated in a given fiscal year for most housing assistance programs are actually spent over periods of five to 20 years. Most of the funds appropriated in the 1970s were not expended until the 1980s. Overall, subsidized housing outlays (for both HUD and FmHA) have risen steadily from $3.9 billion in fiscal year 1978 to $16.6 billion in fiscal year 1988.[5]

Fewer Additional Low Income Households Receiving Assistance in the 1980s

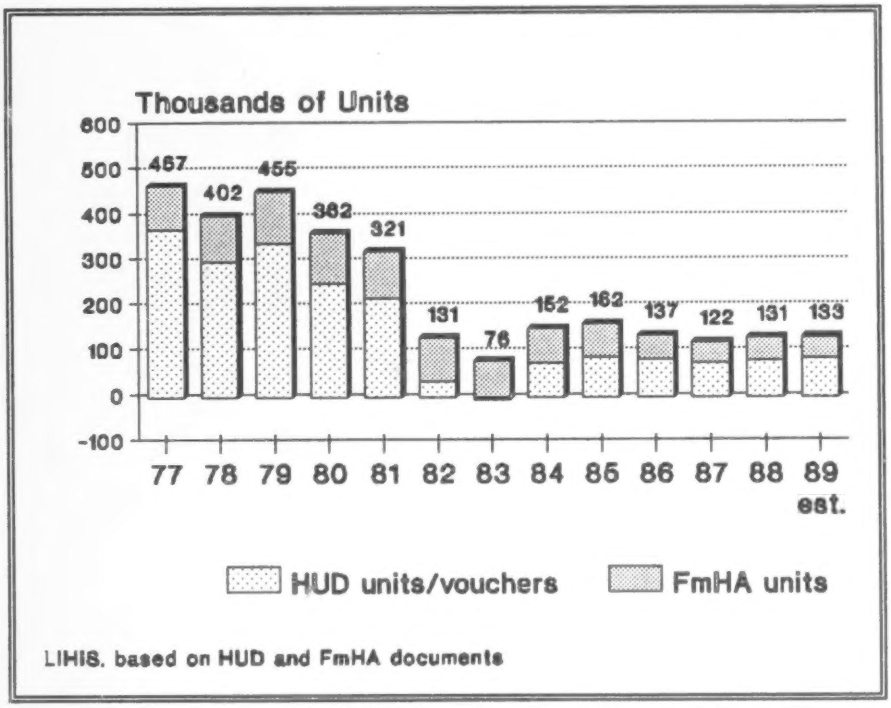
These two seemingly contradictory developments in the 1980s -- substantial increases in spending (or outlay) levels along with sharp declines in appropriations levels -- have confused some who have attempted to unravel recent trends in federal housing policy. In fact, *neither* the annual appropriations levels nor the annual outlay levels provide the best measure of federal commitment to subsidized housing programs.

Rather, the best measure is the number of additional low income households assisted through the federal housing programs each year. As discussed in Chapter I, the number of low income renter households has increased markedly over the past decade, while the number of low rent units in the private housing market has declined. As a result, the number of households aided through government housing programs must rise substantially each year just to keep the shortage of affordable housing from growing larger.

When the federal low income housing commitment is measured by the number of additional low income households assisted each year, a sharp retrenchment in federal support for low income housing becomes apparent. The number of additional low income households assisted each year has fallen sharply. This has exacerbated the growing shortage of affordable housing.

- From fiscal year 1977 through fiscal year 1980, HUD made commitments to provide federal rental assistance to an average of 316,000 additional households per year. From fiscal year 1981 through fiscal year 1988, however, the number of such additional households dropped precipitously -- to an average of only 82,000 per year. In other words, the number of additional low income renters receiving housing assistance each year fell by nearly three quarters.

- If the number of additional low income renters aided in the 1980s had continued at the same average rate as in the late 1970s, there would now be commitments for assistance to an additional 1.8 million low income households.



LIHIS. based on HUD and FmHA documents

Figure 7
HUD and FmHA Low Income Housing
Net Additional Units, 1977 - 89

- There is a similar pattern in commitments made through the Farmers Home Administration. From fiscal year 1977 though fiscal year 1980, FmHA made commitments to assist an average of 106,000 additional homebuyers per year. From fiscal year 1981 through fiscal year 1988, the number of new commitments dropped to an average of only 73,000 per year -- a reduction of more than 30 percent.

The rate of increase in spending (or outlays) on housing assistance will slow down in future years because of the reductions in the number of additional units subsidized during the 1980s.

Growing Number of Poor Renters Not Receiving Housing Assistance

These sharp reductions in the number of additional households provided housing assistance each year -- along with increases in the number of poor renters -- have combined to swell the number of poor renter households that *do not* receive housing assistance.

- Congressional Budget Office data show that the total number of renter households receiving federal housing assistance did grow from 2.4 million in 1978 to 4.3 million in 1988, and that the proportion of poor renter households being assisted climbed from 22 percent in 1979 to 29 percent in 1987.

- However, the sheer growth in the number of renter households who fall below the poverty line was greater than the increase in the number of households receiving housing assistance. As a result, *the number of poor renter households not receiving any housing assistance rose substantially.*

- In 1979, some four million poor renter households received no housing assistance. By 1987, the number without housing assistance had climbed to 5.4 million, *an increase of more than one third.*

The sharp reductions in the number of additional low income households aided each year through federal housing programs contributed to this increase in the number of poor renter households without any housing assistance.

- The 1.4 million increase from 1979 to 1987 in the number of poor renter households without any housing assistance occurred during the same period that the number of additional low income households provided commitments for federal housing aid dropped by an average of more than 200,000 households per year. Had the number of additional households assisted through these programs not been reduced, the number of poor households without housing assistance would have grown far more slowly.[6]

Most Federal Housing Expenditures Benefit Higher Income Families

In contrast to the decline in federal low income housing assistance, there has been a substantial increase in a form of federal housing assistance that primarily benefits middle and upper income families. Each year the federal government provides billions of dollars in benefits to homeowners by allowing them deductions -- primarily mortgage interest and property tax deductions -- from the amount of income that is otherwise taxable by the federal government. These deductions reduce the total amount of federal income taxes that are paid by homeowners and thus become an

Table III.
Federal Spending for Housing, 1976-89

(In billions of dollars)

Year	Appropriations	Outlays	Tax expenditures
1976	$19.5	$3.2	11.2
1977	28.6	3.0	10.2
1978	32.3	3.7	14.7
1979	24.8	4.4	19.4
1980	27.9	5.6	26.5
1981	26.9	7.8	33.4
1982	14.6	8.7	35.6
1983	10.5	10.0	35.1
1984	12.7	11.3	37.9
1985	26.9	25.3	40.6
1986	11.6	12.4	48.5
1987	9.9	12.7	53.5
1988	9.7	13.9	53.9
1989 estimate	10.0	15.3	53.2

Source: LIHIS, based on HUD, FmHA and Joint Tax Committee documents. Appropriation and outlay figures in this table reflect an OMB calculation of HUD and FmHA housing assistance (budget subfunction 604) that differs includes a somewhat different set of programs than the CBO totals referred to earlier in this chapter. Figures for tax expenditures are from OMB's *Special Analyses* budget documents.

indirect form of federal housing subsidy for homeowners. Such subsidies resulting from tax deductions, credits or other tax breaks are technically termed "tax expenditures," since they essentially entail government spending through the tax code.

When federal housing subsidies are considered as a whole -- including both direct federal spending through housing programs and tax expenditures provided through provisions of the Internal Revenue Code -- it becomes clear that the federal subsidies provided through tax expenditures are far greater than the subsidies provided through direct federal spending on housing programs. (See Table III.)

- In fiscal year 1988, direct spending on federal low income housing assistance programs was $13.9 billion. In that same year, federal tax expenditures for housing totalled $53.9 billion.

- Indeed, the amount of federal housing tax expenditures in just the past two fiscal years is roughly equal to the total amount of money spent directly on low income housing during the 1980s. The total amount of federal spending (or outlays) for subsidized housing in the 1980s, from fiscal year 1980 through fiscal year 1988, totalled $107.7 billion.[7] This total amount is just $300 million more than housing-related tax expenditures, primarily homeowner mortgage interest and property tax deductions, in 1987 and 1988 alone.

The wide disparity between the amount of government housing assistance provided through tax expenditures and the amount provided through housing programs results in a subsidy system strongly tilted toward those who are already more affluent. Data published by the Congressional Joint Committee on Taxation indicate that the benefits from housing-related tax expenditures accrue disproportionately to those at the top end of the income spectrum. According to the Committee's estimates:[8]

- In 1987, roughly 75 percent of the benefits from housing-related tax expenditures went to people in the top 15 percent of the income distribution.

As a result, a rough estimate of the distribution of all federal housing subsidies -- including both tax subsidies and those provided through the housing programs -- shows that the lion's share of the benefits go to those at the top, not those at the bottom of the income spectrum.[9]

Table IV.
Estimated Distribution of Housing Subsidies
by Household Income, 1988

(Subsidies in billions)

	Tax Expenditures		Housing	Estimated Total	
Annual income	Amount	%	Outlays	Amount	%
Under $10,000	$0.1	0.1%	$10.1	$10.1	15.7%
$10,000 to $20,000	$1.1	2.2%	$2.7	$3.8	5.9%
$20,000 to $30,000	$3.8	7.6%	$1.0	$4.9	7.6%
$30,000 to $40,000	$5.4	10.7%	$0.0	$5.4	8.4%
$40,000 to $50,000	$6.6	13.0%	$0.0	$6.6	10.2%
$50,000 and over	$33.6	66.4%	$0.0	$33.6	52.2%

Source: LIHIS calculations based on Joint Tax Committee, and OMB documents.

- In 1988, households with incomes below $10,000, which constituted roughly the bottom sixth of all households, received fewer than one-sixth of housing subsidies.

- Meanwhile households with incomes above $50,000, or roughly the top fifth of households, received more than half of all housing subsidies.

- The average annual subsidy per household for all households with incomes below $10,000 was approximately $600, while the average annual subsidy for all households with incomes above $50,000 was about $2,000, or more than three times as high.[10]

Chapter Notes

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1. The percentage of *eligible* households (rather than of all poor households) receiving benefits in these programs may be somewhat higher, particularly in programs that have assets limits that make some low income households ineligible. For example, the Congressional Budget Office recently estimated that 41 to 58 percent of all eligible households (and between 51 and 66 percent of all eligible individuals) receive food stamps. By contrast the Congressional Budget Office estimates that only 25 to 33 percent of the eligible low income households received housing assistance in 1988. These various participation estimates include participation by households that have incomes above the poverty line but that qualify for the programs. The estimates exclude households that have incomes below the poverty line but that do not qualify, for reasons such as failing to meet program assets limits.

2. Congressional Budget Office, *Current Housing Problems and Possible Federal Responses*, December 1988. Figures for 1988 are from unpublished CBO documents.

3. CBO found that when the appropriations levels were measured in constant 1987 dollars to remove the effects of inflation, they fell from $53 billion in FY 1978 to $9.5 billion in FY 1988.

4. When measured in constant 1987 dollars to remove the effects of inflation, the loan authority and appropriations decreased from $6.2 billion in FY 1978 to $2.0 billion in FY 1988.

5. When measured in constant 1987 dollars to remove the effects of inflation, outlays increased from $6.8 billion fiscal 1978 to $16.1 billion in fiscal 1988.

6. It should be noted that housing assistance is made available to both poor and some non-poor households. By law, HUD has established eligibility standards based on the incomes of families in a given geographical area. Most HUD assistance is given to households with incomes up to 50 percent of the area median income adjusted by family size -- a group of renters that HUD classifies as "very low income" renters. HUD also allows a small percentage of aid to go for assistance to families with incomes between 51 and 80 percent of the area median income.

The very low income limits established by HUD vary widely by geographical area. For a four person family, the very low income limits in 1987 ranged from $8,100 in some Southern rural areas to $26,850 in some metropolitan areas in Connecticut. However, a very large proportion of areas had very low income limits below $15,000 in 1987. The federal poverty line was $11,611 for a family of four in 1987.

7. The increase in outlays in 1985 is caused by a change in the method of financing public housing, which generated close to $14 billion in one-time expenditures in 1985. This amount paid off in one year the capital cost of public housing construction and modernization activities undertaken since 1974, which otherwise would have been paid off over periods of up to 40 years. Because of this one-time expenditure, however, future outlays for public housing will be lower than they would have been otherwise.

8. *Estimates of Federal Tax Expenditures for Fiscal Years 1988-1992.* Prepared by the staff of the Joint Committee on Taxation, February 27, 1987. The Joint Tax Committee's estimates are based on a model with tax laws in effect through the end of 1986 and previous historical patterns of tax returns.

9. Precise estimates of the income distribution of households and of the distribution of housing outlays are not available. Therefore, the income distribution of households is based on 1987 Current Population Survey published figures. Since incomes rose in 1988, this assumption would slightly overestimate the number of households at the lower end of the income distribution and underestimate the number of households at the higher end of the distribution.

10. The subsidy per household calculations are aggregate and thus assume that all households at a given level of income are benefitting equally from the housing subsidy programs.

V. OMINOUS TRENDS FOR SUBSIDIZED HOUSING

If no government action is taken, housing problems for the poor could worsen considerably in coming years. Hundreds of thousands of privately-owned but federally subsidized housing units could be removed from the low-income housing inventory over the next 15 years and converted to other uses or to market-rate units with costs that poor households could not afford. In addition, much of the nation's subsidized housing stock is old, deteriorating and badly in need of modernization.

Threats to the Subsidized Housing Stock

The threats to the subsidized housing stock come in several forms. First, the multi-year contracts under which some federal rental subsidies are provided to landlords on behalf of low income tenants are due to expire in coming years. These subsidies will cease unless the contracts are renewed or the subsidies are continued in some other form. Second, many owners of apartment buildings that are required to rent to low income tenants in return for a long-term federal mortgage subsidy will become eligible to "prepay" the remainder of their mortgages, raise the rents they charge, and rent to a more affluent clientele (or convert their buildings to condominiums). Finally, the federal subsidies provided to public housing authorities and to some private landlords for many subsidized units appear not to have been adequate to maintain the units in decent condition. A substantial number of units are in disrepair and in need of maintenance or rehabilitation.

Expiring Contracts

Under one type subsidized housing program -- the Section 8 certificate program -- the federal government enters into a contract with private owners in which the government agrees to provide the owners with a guaranteed long-term rent. In return for this guaranteed rent, owners must reserve their units for low and moderate income tenants. (See Appendix B for a description of various programs.)

Under these programs, HUD determines the cost in the local area of modest rental housing for households of different sizes. This cost level is termed the "fair market rent." Low income tenants with Section 8 certificates must then locate a unit with a rent at or below the "fair market rent." Low income tenants pay 30 percent of their adjusted incomes in rent, and HUD pays the landlord the difference between the amount paid by the tenant and the fair market rent. These subsidies cover designated rental units for specified periods, generally five or 15 years.

In the next five years, contracts covering more than 700,000 such units will expire. If Congress does not provide funding to renew these contracts, the units will lose their subsidies, and owners will be free to charge rents at whatever level the market will bear or convert the units to condominiums or to non-housing uses.

In recent years, another type of Section 8 assistance -- housing vouchers -- have increasingly come into use. Vouchers operate in a somewhat similar fashion to Section 8 certificates. The subsidy provided by a voucher is used to help defray part of the rental cost of a unit selected by the tenant. The amount of the subsidy equals the difference between 30 percent of the tenant's adjusted income and a HUD-determined "payment standard" which is much like the "fair market rent."

However, under voucher programs (unlike the certificate programs), low income households receiving the vouchers may rent units at any cost level, *including units renting for more than the fair market rent*. If a tenant is unable to find a unit with rental costs at or below the fair market rent (a not uncommon occurrence in some tight housing markets), or the tenant wishes to rent a particular unit with a higher cost, the tenant is free to rent such a unit -- but must pay the full amount by which the rent for the unit exceeds the fair market rent. On the other hand, if the tenant finds a unit renting for less than the fair market rent, the tenant still receives a subsidy for the full difference between 30 percent of his or her income and the fair market rent (which means that the tenant gets to keep the difference between the fair market rent and the actual rental charge). The contract terms for vouchers are for five years.

Most current voucher contracts -- nearly 250,000 of them -- are due to expire between now and the end of fiscal year 1994.

Nationwide, Section 8 certificate and voucher programs provide assistance to more than two million low income households. HUD estimates that contracts will expire on more than 300,000 of these units by the end of 1991 and on nearly one million units by the end of 1994. (See Table V.)

Table V
Number of Units with Expiring Contracts

Fiscal Year	Section 8 Contracts	Voucher Contracts	Total Contracts
1989	1,437	0	1,437
1990	12,581	11,063	23,644
1991	256,133	23,644	295,906
1992	180,726	71,127	251,853
1993	157,879	51,576	209,455
1994	112,061	73,617	185,678
TOTAL	720,817	247,156	967,973

Source: HUD FY 1990 Budget Summary

To preserve units with expiring subsidy contracts for low income tenants, Congress must find the necessary financial resources to renew the expiring contracts or continue the rental subsidies in some other form. In the current atmosphere of very tight budget constraints, this may not be an easy task.

The cost of renewing expiring contracts will be substantial. The Congressional Budget Office estimates that just to renew all contracts expiring through 1991 under the same terms as in the original contracts (i.e., for the same contract period and under the same terms) would require appropriations of more than $24 billion in the next two years. These one-time appropriations would provide the full subsidy costs for these units over the multi-year terms of the contracts.

Renewing the contracts of the nearly one million units that will expire through 1994 would require appropriations of nearly $73 billion, if the same terms were to be maintained as in the original contracts.

It should be noted that these large *appropriation* figures for the next few years are not matched by similar *expenditure* (or outlay) figures for the next few years.

Funding for these housing programs is provided through "up-front" appropriations. Once the money is appropriated, it is spent gradually over the full life of the contracts. Because many of the original contracts lasted for 15 years, and because CBO's cost estimates assume that all contracts will be renewed under the original terms, these large appropriations would actually be spent over a 15-year period.

Moreover, renewing all the contracts would only maintain the same level of subsidies that is currently provided. Actual federal expenditures (or outlays) for these contracts would simply continue at current levels so that overall government expenditures would not rise significantly. By contrast, if the contracts are allowed to expire, government expenditures for housing would decline (as would the number of households receiving assistance).

Table VI
Estimated Appropriations Necessary to
Renew Expiring Contracts

(Budget Authority, in billions)

Fiscal Year	OMB Estimate	CBO Estimate
1990	$ 0.667	$ 1.092
1991	8.618	23.043
1992	7.535	18.747
1993	6.408	17.445
1994	5.783	12.405
TOTAL	$29.051	$72.732

Note: OMB assumes renewals of all contracts with five-year vouchers, while CBO assumes renewals under the same terms as in the original contracts.

As indicated in Table VI, the Office of Management and Budget (OMB) has much lower estimates of the amounts that need to be appropriated to replace the expiring contracts. Unlike CBO, OMB assumes that all expiring contracts will be renewed with vouchers carrying terms of five years. The five-year terms for the vouchers would ensure that the amount of "up-front" appropriations needed would be substantially lower than if the contracts are renewed for 15-year periods. However, at the end of five years, the renewal process would have to be undertaken again. Thus, over a 15-year period, overall renewal costs would not be significantly lower than those that have been estimated by CBO.

Prepayments and Expiring "Use Restrictions"

Under a second type of subsidy programs, federal mortgage subsidies have been provided to private developers who, in turn, have been required to lease some or all of their units to low and moderate income tenants for at least 20 years.[1] Under these programs, building owners generally received mortgages with one to three percent interest payable over 40 years. However, after 20 years, owners are permitted to quit the subsidy program by paying off their mortgages in full before they are due.

Once they "prepay" their mortgages, owners are no longer required to reserve units at low rental charges for low and moderate income tenants. Instead, the owners become free to charge whatever rents the market will bear for their units. Without "use restrictions," (i.e., the restriction that units be reserved for those with low and moderate incomes), owners may also choose to convert their building to condominiums or other commercial uses. Low income tenants could be required either to pay substantially higher rents or to find other housing.

Many of the buildings with these subsidized mortgages will reach the twentieth year of their restricted use at some point between now and the end of the century. Owners of these projects will have the option of paying off their mortgages early or continuing to reserve their units for low income tenants. Subsidized units will be at most risk in areas where owners are able to make the greatest profits from raising rents or converting the units to other uses, such as in areas that have "gentrified." As a result, the loss of these subsidized units is most likely in tight housing markets where rents have increased markedly -- and affordability problems for unsubsidized low income renters are already the greatest.

A report by the National Low Income Housing Preservation Commission issued in May 1988 found that due to the likely prepayment of mortgages, 66 percent of the subsidized housing that is provided under these mortgage subsidy programs and eligible for early prepayment could be lost from the subsidized housing stock over the next 15 years.

- The Commission's report projected that 243,000 of the 368,000 subsidized units examined that are eligible for prepayment will cease to be subsidized low income units by the end of this 15-year period unless governmental action is taken to prevent this occurrence.

- The Commission also estimated that the cost of preserving all the threatened units for low income tenants would be $10 billion over 15 years.[2]

In 1987, Congress enacted a moratorium on prepayment of federally backed mortgages. This moratorium is set to expire at the end of 1989.

Deferred Maintenance and Repairs

Almost one quarter of the nation's subsidized low income housing stock is more than 20 years old. Because operating costs have risen rapidly and because government subsidies for operating subsidized units have lagged, even some newer units face problems of lack of maintenance and deterioration.

The largest number of units facing these problems are those subsidized under the public housing program. HUD and local public housing authorities (PHAs) own and operate about 1.3 million rental units of public housing. The demand for public housing far exceeds its limited supply. This has resulted in long waiting periods -- up to 18 years in some cities -- for low income households that apply for such housing.

Under the public housing program, HUD provides operating subsidies to local PHAs to make up the difference between the rents that low occupants pay (which equal 30 percent of their adjusted incomes) and the costs of operating the units. These subsidies are intended to enable PHAs to pay for utilities, routine maintenance, and administration. However, they are not adequate to fund major repairs. As a result, many public housing projects have deteriorated over time.

Thousands of the nation's public housing units have deteriorated badly and are in need of major structural repairs. In 1983, Congress instructed HUD to undertake a study of the renovation needs of the nation's public housing stock. The study was issued in March 1988 and was based on a survey of conditions in 1985.[3]

- The study, conducted by Abt Associates under contract with HUD, found that more than half of public housing households now live in projects needing moderate to substantial rehabilitation just to meet HUD's mandatory quality standards.[4]

- The study estimated that the costs for major capital repairs (such as roofs and boilers) needed to bring public housing units up to HUD's quality standards exceeded $20 billion (in 1986 dollars).

Federal funding for modernization of the public housing stock has fallen well short of this need. Despite the $20 billion backlog in needed public housing repairs, Congress appropriated only $1.65 billion for this purpose in fiscal year 1989. Moreover, the Bush administration has proposed to reduce funds for public housing repairs by more than one-third, to $1 billion in fiscal year 1990.

Similar problems face many of the projects subsidized under the low interest rate programs described above. The Low Income Housing Preservation Commission estimates that $4.5 billion will be needed over the next 15 years for repairs and additional subsidies for 280,000 units threatened with default, even if their subsidy contracts are renewed.

* * * * *

Taken together, the expiring Section 8 contracts, the impending expiration (due to mortgage prepayments) of use restrictions on many buildings now operating under federal mortgage subsidies, and the deterioration of the older subsidized housing stock pose serious risks to the availability of housing for poor households. If major action is not taken to address these developments, a large portion of the currently subsidized stock could be lost within the next 15 years and the housing problems of the poor are likely to grow substantially more severe.

Moreover, the *unsubsidized* low cost housing stock is also at risk of contracting. The vast majority of poor renter households live in unsubsidized units in the private housing market. As noted in Chapter IV, fewer than one in three poor renter households receives any type of government housing assistance. These households must rely on the shrinking supply of low rent units in the private market. As noted in Chapter II, the total number of rental units with rent and utility costs of no more than $250 a month fell by 1.8 million units from 1970 to 1985 despite the addition of 2.9 million new subsidized units over the same period. There is little evidence to suggest that this trend in the supply of private low rent housing is likely change in the years ahead.

Chapter Notes

1. These programs included the 221(d)3 Below Market Interest Rate program and the Section 236 program.

2. *Preventing the Disappearance of Low Income Housing,* The National Low Income Housing Preservation Commission, May 1988. The Commission was co-chaired by Carla Hills, former Secretary of HUD, and Henry Reuss, former chairman of the House Committee on Banking, Finance and Urban Affairs. The Commission's study found that the cost of providing vouchers to tenants displaced by prepayment would also be $10 billion. Thus, it would cost no more to prevent prepayment directly than to provide displaced tenants with vouchers with which they might or might not be able to find suitable housing.

3. *Study of the Modernization Needs of the Public and Indian Housing Stock: National Regional and Field Office Estimates: Backlog of Modernization Needs,* prepared by Abt Associates Inc., Cambridge Massachusetts for the U.S. Department of Housing and Urban Development Office of Policy Development and Research, March 1988.

4. HUD's mandatory building standards attempt to provide decent, safe, and sanitary public housing for all residents. To this end, buildings are required to meet local housing code requirements and federal standards for accessibility for the handicapped and for lead paint abatement.

VI. CHARACTERISTICS OF POOR RENTER AND HOMEOWNER HOUSEHOLDS

Most poor households have very low incomes, consist of three or fewer people, and are white. However, black and Hispanic households are far more likely to be poor than are white households.

Household Income

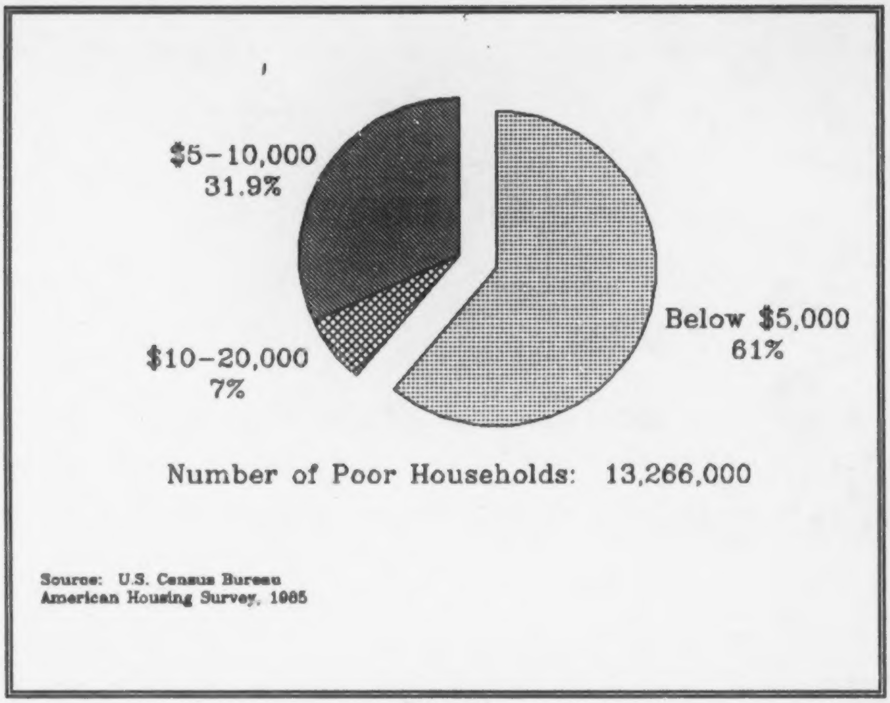
The poverty line for a family of three was $8,573 in 1985. Most of the households that were poor that year had incomes well below this level. Three-fifths of all poor households had incomes of less than $5,000 in 1985. (See Figure 8.)

Household Composition

Most poor households were relatively small in size. Nearly three of every four poor households had three or fewer people. More than one-third of all poor households consisted of people living alone. Only one of every seven poor households had more than four people.

More than half of all poor households were headed by a woman. Of the households of two or more people, slightly fewer than half were female-headed. Of the poor households that consisted of people living alone (who were mostly elderly individuals), the large majority were women.

Three of every ten poor households were headed by an elderly person (age 65 and over). Two of every five poor households had children.



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 8
Income of Poor Households, 1985

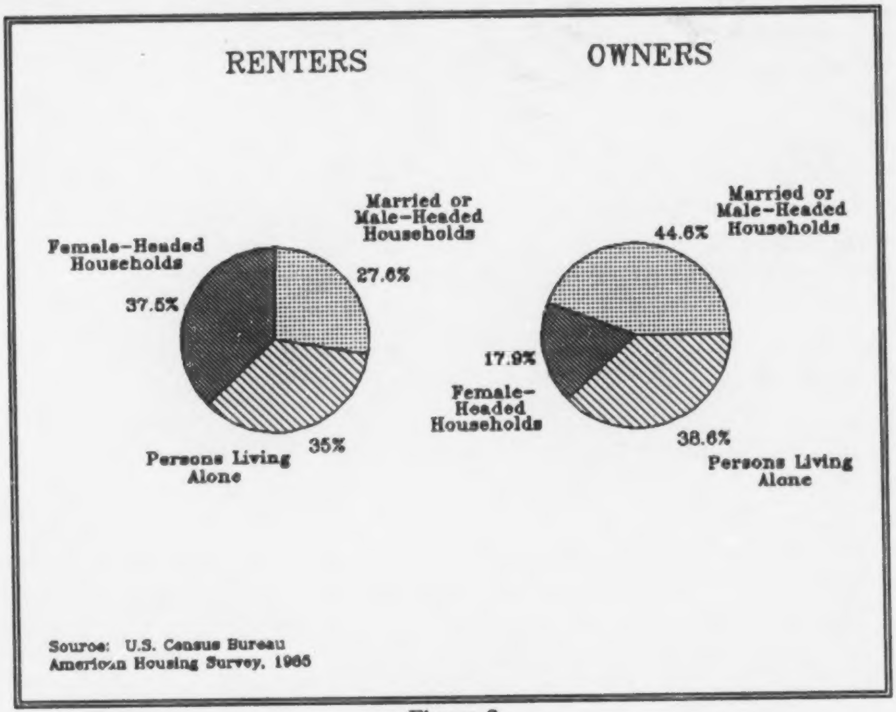
Poor Renters and Homeowners

The characteristics of poor renters and poor homeowners differed from each other in a number of ways. Poor homeowner households were more likely to be headed by an elderly person, to have no children, and to be married. Poor renter households were more likely to be younger, to have children, and to be headed by a single woman.

The typical head of a poor homeowner household was 62 years of age. By contrast, the typical head of a poor renter household was aged 38.

Two-fifths of all poor homeowner households were headed by an elderly person, while just one-third had children. By contrast, only about one-fifth of poor renter households were headed by an elderly person. More than half of all poor renter households had children.

Poor homeowner and renter households also differed in their proportions of married-couple and female-headed families. Of the poor homeowner households that contained two or more people, 73 percent were comprised of married-couple families or male-headed families. Female-headed families were a small minority among this group. By contrast, among poor renter households of two or more people, a majority were female-headed families. (See Figure 9.)



Source: U.S. Census Bureau American Housing Survey, 1985

Figure 9
Composition of Poor Households
1985

Among both poor homeowner and poor renter households, a large majority of the single-person households consisted of women living alone.

Racial Composition of Poor Households

Of the 13.3 million poor households in 1985 some 8.1 million -- or 61 percent -- were white. Whites constituted 74 percent of poor homeowner households and 53 percent of poor renter households.

Yet while whites comprised a majority of poor households, blacks and Hispanics accounted for a highly disproportionate share of these households.

- Blacks comprised 11 percent of all households, but 26 percent of the poor households. (They accounted for 31 percent of poor renter households, and 19 percent of poor homeowner households.)

- Hispanics comprised six percent of all households, but 11 percent of the poor households. (Hispanics constituted 14 percent of poor renter households and six percent of poor homeowner households.)

As noted, black and Hispanic households are much more likely to be poor than are white households. In 1985, some 35 percent of black households had incomes below the poverty line, as did 28 percent of Hispanic households. In contrast, 11 percent of white households were poor. Thus, black and Hispanic households were more than twice as likely as white households to be poor.

Poor black and Hispanic households also represented a disproportionate share of poor families with children and of poor female-headed families.

- In 1985, some 48 percent of poor families with children were black or Hispanic-headed households.

- Of those poor households of two or more people that were headed by a woman, some 55 percent were headed by a black or Hispanic woman. (Poor black households are more likely to be headed by a woman than are poor Hispanic households.)

VII. THE HOUSING PROBLEMS OF BLACK AND HISPANIC HOUSEHOLDS

Black and Hispanic households face particularly severe housing problems. They are more likely to have excessive housing cost burdens and to live in overcrowded or substandard housing than are white households. Blacks and Hispanics are also less likely than white households to own their homes. Moreover, the housing problems of blacks and Hispanics worsened to a greater degree during the period from 1978 to 1985 than did the housing problems of whites.

The American Housing Survey provides detailed information on black, Hispanic, and "all other" households. Nearly all households in the "all other" category (97 percent) are white, and in this chapter, they are referred to as white households.[1]

Housing Cost Burdens

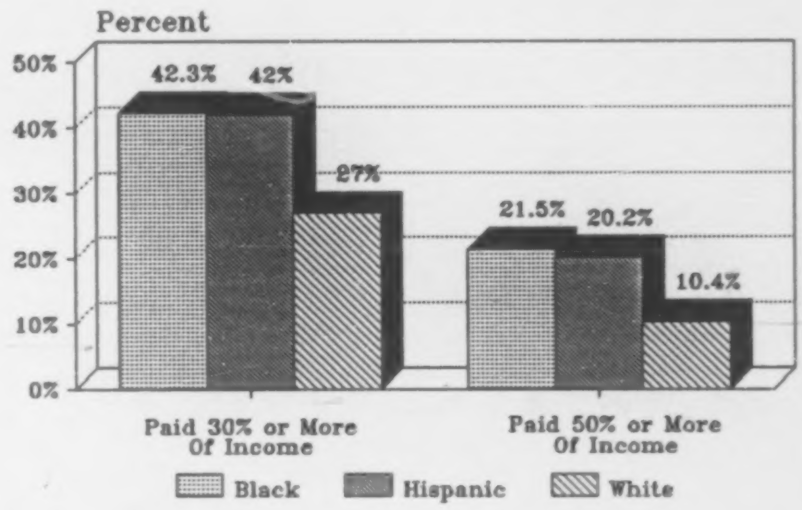
Black and Hispanic households are more likely to bear high housing costs than are white households.

- In 1985, some 42 percent of all black households (including both poor and non-poor households) had housing cost burdens that equalled or exceeded 30 percent of their income and hence would be considered "unaffordable" under the federal standard.

- Similarly, 42 percent of Hispanic households spent 30 percent or more of their income on housing.

- In contrast, 27 percent of white households spent 30 percent or more of their income on housing.

A similar pattern emerges when households bearing extremely high housing cost burdens -- housing costs equalling or exceeding 50 percent of income -- are examined. Some 22 percent of all black households -- more than one in five -- paid at least 50 percent of their income for housing in 1985, as did 20 percent of all Hispanic households. In contrast, some ten percent of all white households bore housing cost burdens of this magnitude.



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 10
Housing Cost Burdens By Race, 1985

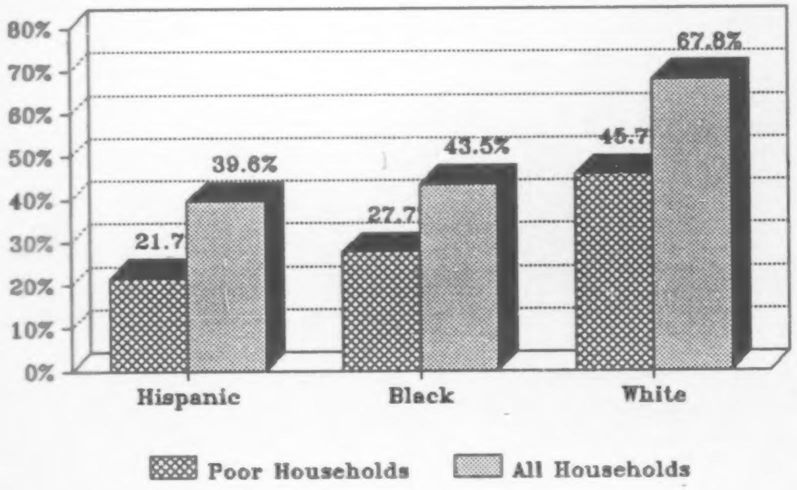
In short, in 1985 black and Hispanic households were more than one and one-half times as likely to bear unaffordable housing costs, and twice as likely to bear extremely high housing cost burdens, as white households. (See Figure 10.)

The high housing cost burdens of black and Hispanic households reflect, in part, the fact that blacks and Hispanics are more likely to have low incomes than whites.

- In 1985, some 35 percent of black households were poor. The typical (or median) black household had an income of $13,666.
- More than one-fourth -- 28 percent -- of Hispanic households were poor, and the income of the typical Hispanic household was $17,055.
- White households, on the other hand, had higher incomes on average. In 1985, some 11 percent of white households were poor, and the typical white household had an income of $24,156.

As noted, poor households generally spend a greater proportion of their income on housing than do non-poor households. Because black and Hispanic households are more likely than white households to be poor, they are more likely to bear high housing cost burdens.

Additionally, black and Hispanic households are less likely to own their homes than white households, which further contributes to their higher housing cost burdens. (At income levels below $40,000, renters typically have higher housing cost burdens than homeowners.)



Source: U.S. Census Bureau
American Housing Survey, 1985

Figure 11
Homeownership Rates by Race, 1985

Hispanic households have particularly low rates of homeownership. Fewer than two in five Hispanic households (40 percent) were homeowners in 1985. Only one-fifth (22 percent) of *poor* Hispanic households owned their homes.

Among blacks, rates of homeownership were also low, though slightly higher than among Hispanics. Some 44 percent of black households owned their homes in 1985. Some 28 percent of *poor* black households were homeowners.

Homeownership rates are substantially higher among white households. While blacks and Hispanics are typically renters, whites are typically homeowners. More than two-thirds (68 percent) of white households owned their homes in 1985. At every income level, white households are far more likely to be homeowners than are black and Hispanic households.

Moreover, the proportion of *poor* white households that own their homes -- 46 percent -- is greater than the proportion of *all* black and Hispanic households, including both poor and non-poor, that are homeowners. (See Figure 11.)

The Housing Cost Burdens of Poor Households, By Race

While blacks and Hispanics in general bear significantly higher housing cost burdens than do whites, housing cost burdens for *poor* whites are as severe as those borne by poor blacks and Hispanics. In fact, the proportion of poor white households with housing costs in excess of 30 percent of income actually *exceeds* the proportion of poor black and Hispanic households with housing costs of this magnitude. (See Table VII.)

Table VII
Housing Cost Burdens of
Poor Households, by Race, 1985

	Paid 30% Or More	Paid 50% Or More
Black	76.5%	53.8%
Hispanic	79.2	58.9
White	82.1	57.4

- In 1985, some 77 percent of poor black households and 79 percent of poor Hispanic households (including both renters and homeowners) spent 30 percent or more of their income on housing. In comparison, some 82 percent of poor white households had housing costs this high.
- Some 54 percent of poor black households and 59

percent of poor Hispanic households spent 50 percent or more of their income on housing expenses.[2] A similar proportion of poor white households -- 57 percent -- bore housing costs of this magnitude.

Thus, the housing cost burdens of poor white households are as high as the burdens of poor black and Hispanic households. However, because black and Hispanic households are more than twice as likely to be poor as white households, these extreme housing cost burdens affect a much larger proportion of the black and Hispanic population than of the white population.

Housing Problems Have Worsened Since 1978

As Table VIII reveals, the housing cost burdens of poor minority households -- and of poor Hispanic households in particular -- have worsened appreciably since 1978.

Between 1978 and 1985, the proportion of poor Hispanic households with "unaffordable" housing costs (35 percent of income or more[3]) grew from 63 percent to 76 percent, an increase of 13 percentage points. The proportion of poor black households bearing such costs rose by ten percentage points, from 60 percent in 1978 to 70 percent in 1985.

Poor white households also experienced rising housing cost burdens between 1978 and 1985, but the increases were not as sharp as those faced by blacks and Hispanics. The proportion of poor white households bearing housing costs in excess of 35 percent of income rose from 69 percent to 75 percent, an increase of six percentage points.

Similarly, as Table VIII shows, housing cost burdens for all minority households, including both the poor and the non-poor, rose more rapidly during this period than did the housing cost burdens of all white households. In 1978, the housing cost burdens of all black and Hispanic households were already significantly higher than those faced by white households. By 1985, this gap had become still larger.

The Causes of Increasing Housing Cost Burdens

These significant increases in the proportion of income that minority households spend on housing appear to stem from two developments: rising housing costs without comparable increases in incomes.

- The income of the typical black household was the same in 1985 as in 1978, after adjusting for inflation. However, housing costs for the typical

Table VIII
Changes in Housing Cost Burdens By Race, 1978-1985

Paid 35% or More Of Income	1978	1985	Percentage Point Change
Poor Households			
Black	60.3%	69.9%	+9.6
Hispanic	63.1	75.9	+12.8
White	68.9	75.3	+6.4
All Households			
Black	27.6%	34.5%	+6.9
Hispanic	25.3	34.3	+9.0
White	17.1	20.0	+2.9

black household rose 15 percent during that period, after inflation adjustments.

- For the typical Hispanic household, income rose slightly between 1978 and 1985 (five percent), but housing costs increased 13 percent.

For both Hispanic and black households, housing costs thus rose significantly faster than incomes. This led increasing numbers of black and Hispanic households to bear excessive housing cost burdens.

Housing costs have also grown for white households, but not at so rapid a pace. Between 1978 and 1985, housing costs for a typical white household grew seven percent. During the same period, the income of the typical white household grew eight percent.

Substandard and Overcrowded Housing Conditions

In addition to paying a large proportion of their incomes for housing, minority households are also troubled by overcrowded and substandard housing conditions. The problems in housing quality faced by these households are more severe than those faced by white households.

- In 1985, blacks and Hispanics constituted *17 percent* of all households, but *42 percent* of households occupying substandard housing units.

Table IX
Households Living in Substandard Conditions, By Race, 1985

	Poor	Non-Poor
Black	32.6%	16.7%
Hispanic	27.4	14.0
White	13.5	4.8

As Table IX indicates, black and Hispanic households were more than twice as likely to live in substandard housing as white households. Some 33 percent of poor black households and 27 percent of poor Hispanic households lived in substandard housing in 1985, compared with 14 percent of poor white households.

Similarly, some 17 percent of non-poor black households and 14 percent of non-poor Hispanic households lived in substandard conditions in 1985, compared with five percent of non-poor white households.

In fact, the proportion of *non-poor* black and Hispanic households living in substandard conditions was greater than the proportion of *poor* white households who lived in substandard housing conditions.

Moreover, the *number* of minority households living in substandard conditions increased between 1975 and 1985.

- In 1975, some 2.7 million black and Hispanic households were living in substandard housing. By 1985, the number had grown to 3.1 million.[4]
- The number of minority renters living in substandard housing increased from 1.7 million in 1975 to 2.1 million in 1985, while the number of minority homeowners living in these conditions remained unchanged at approximately one million households in both 1978 and 1985.

On the other hand, the *proportion* of all black and Hispanic households living in substandard housing, including both poor and non-poor households, declined between 1975 and 1985, from 26 percent to 21 percent. The proportion of black and Hispanic renters living in substandard conditions declined from 29 percent in 1975 to 24 percent in 1985.

In addition to substandard housing conditions, overcrowding remains a significant problem for black and Hispanic households, although the rates of overcrowding for these households have dropped significantly since 1978, the earliest year for which such data are available. ("Overcrowding" is defined as having more than one person per room in a household.)

Nevertheless, overcrowding remains far more prevalent among minority households than among white households. Hispanic households in particular suffer from overcrowding.

- In 1985, one of every six poor Hispanic households -- 18 percent -- lived in overcrowded quarters, as did one-eighth -- 13 percent -- of *all* Hispanic households.
- One out of nine poor black households (11 percent) lived in overcrowded conditions, as did six percent of all black households.
- By contrast, fewer than one in twenty poor white households (4.4 percent), and one in sixty of *all* white households (1.7 percent), lived in overcrowded conditions in 1985.

Poor Hispanic households were thus more than four times as likely, and poor black households were more than twice as likely, to be overcrowded as poor white households.

In summary, black and Hispanic households face substantially greater housing problems than white households in terms of excessive costs and substandard and overcrowded conditions. When just poor households are considered, poor blacks and Hispanics bear severe housing cost burdens that are similar to the burdens faced by poor whites. However, poor black and Hispanic households are much more likely to live in substandard or overcrowded conditions than do poor white households. Most important, black and Hispanic households are more than twice as likely to be poor as are white households, and therefore they face *all* of these problems -- including high housing cost burdens -- much more frequently than do their white counterparts.

Chapter Notes

1. Of 14.8 million black and Hispanic households in 1985, some 169,000 (1.1 percent) were classified as both black and Hispanic. Of households other than black and Hispanic households, 97 percent were white. The remaining three percent include those of Asian, Pacific Islander, American Indian, Aleut, and Eskimo descent, as well as a number of other racial and ethnic groups.

2. Published American Housing Survey data provide only limited information on poor minority homeowners and renters. This chapter thus focuses primarily on all poor black and Hispanic households, without distinguishing between owners and renters.

3. As mentioned in Chapter I, the housing affordability standard used when making comparisons with previous years is 35 percent of income, instead of the currently accepted standard of 30 percent of income. In years prior to 1985, when an affordability standard of 25 percent of income was used, data were published on households paying at least 25 and 35 percent of income for housing costs, but not on households paying at least 30 percent of income.

4. Data for 1975 are from Irby, Iredia, *Attaining the Housing Goal?*, U.S. Department of Housing and Urban Development Analysis Division, Office of Economic Affairs, July 1986. This is an independent paper, and the views it expresses do not necessarily represent those of the Department of Housing and Urban Development.

VIII. THE HOUSING PROBLEMS OF ELDERLY, SINGLE-PARENT, AND YOUNG HOUSEHOLDS

Certain types of households -- elderly, single-parent, and young households -- face especially severe housing problems. Because they tend to have very low incomes, these households often bear high housing cost burdens. For young and single-parent families in particular, housing cost burdens have increased markedly since the mid-1970s, while incomes have dropped. This has placed homeownership out of reach for many of these households.

Elderly Households

In 1985, there were 18.9 million households headed by an elderly person (a person 65 years of age or older). In general, they were small households. Nearly half of all elderly households (46 percent) consisted of people living alone, and most of these households consisted of single women. Nine out of ten elderly households were one- or two-person households.

Elderly households differ from other households in two other significant ways. First, elderly households are more likely to have low or moderate incomes than non-elderly households. According to the American Housing Survey data, in 1985, about half of all elderly households had incomes below twice the poverty line. (Twice the poverty line was $10,312 for an elderly person living alone in 1985.) In comparison, fewer than one-third of non-elderly households had incomes of less than twice the poverty line[1].

Second, elderly households are more likely to own their homes than are non-elderly households. In 1985, 74 percent of elderly households were homeowners. By comparison, some 61 percent of non-elderly households owned their homes.

Table X
Homeownership Among Elderly Households, 1985

	Elderly	Non-Elderly
Homeownership	73.2%	60.9%
Ownership Among Poor	57.4	30.4

The difference in homeownership rates is especially marked among poor elderly and non-elderly households. Nearly six of ten poor elderly households -- 57 percent -- were homeowners in 1985. In contrast, only three of ten poor non-elderly households -- 30 percent -- owned their homes. (See Table X.)

The Housing Problems of the Elderly Poor

Those elderly households that are poor bear sharply higher housing cost burdens than elderly households that are *not* poor. The housing cost burdens of the elderly poor are, however, somewhat lower than the burdens borne by poor households that are younger.

In 1985, nearly three out of four poor elderly households (74 percent) spent 30 percent or more of their income on housing. More than two-fifths of all elderly poor households (44 percent) spent at least 50 percent of their income on housing costs.[2]

In contrast, only one of four (25 percent) non-poor elderly households spent 30 percent or more of their income on housing, while fewer than one in twelve (eight percent) spent 50 percent or more of their income on such costs. (See Table XI below.)

At the same time, poor elderly households typically have smaller housing cost burdens than do poor households that are not elderly. In 1985, the typical poor elderly household spent 45 percent of its income on housing, while the typical poor *non*-elderly household spent 64 percent. In part, the lower housing cost burdens of elderly poor households reflect the relatively high rate of homeownership -- and of ownership free of mortgage payments -- among the elderly poor. These lower housing cost burdens, when measured as a percentage of income, may also reflect the fact that the elderly poor generally have incomes that do not fall as far below the poverty line as the incomes of the non-elderly poor.

Table XI
Housing Cost Burdens of
Poor Elderly Households, 1985

	Poor Elderly	Non-Poor Elderly
Paid 30% or More Of Income	74.0%	25.3%
Paid 50% or More Of Income	43.5%	8.0%

In addition to facing high housing cost burdens, a significant number of poor elderly households live in substandard housing conditions. In 1985, more than one in six poor elderly households -- 17 percent -- lived in housing that had moderate or severe physical problems (see Chapter III for details of the HUD definition of substandard housing). In contrast, six percent of elderly households that were not poor lived in substandard housing in 1985.

Poor elderly households are, however, less likely to live in substandard conditions than poor households that are younger. In 1985, some 21 percent of non-elderly poor households lived in substandard housing conditions.

It should also be noted that low income elderly renters are more likely than other poor households to receive housing assistance. This may reflect the fact that many housing subsidy programs have favored the production of subsidized housing for the elderly relative to other groups also in need of housing assistance. A recent Congressional Budget Office study found:

- In 1988, elderly households constituted 29 percent of "very-low-income" renters -- renters with incomes below 50 percent of the median income for their area -- but 43 percent of such households receiving housing assistance.[3]

Nevertheless, nearly half of the very-low-income elderly renters do not receive any housing assistance under current housing programs.

Elderly Renters

Although renters constitute a minority of all elderly households and also of poor elderly households, their housing problems are significant. In part, this reflects the fact that elderly renters are a predominantly low income group. In 1985, one of three (34 percent) elderly renters was poor, and nearly three out of four (73 percent) had incomes below twice the poverty line. The typical elderly renter had an income of $7,867.

Elderly renters often bear high housing costs.

- Three out of five elderly renters (61 percent) spent 30 percent or more of their income for rent and utilities, compared with two of five renters who were not elderly (44 percent).

- Three out of ten elderly renters spent at least half of their income for housing expenses. In contrast, two of ten non-elderly renters (19 percent) had housing costs of this magnitude.[4]

Elderly Homeowners

Elderly homeowners were much less likely than elderly renters to be poor or to bear high housing cost burdens. The typical elderly homeowner household spent 19 percent of its income on housing.

Elderly homeowners had relatively low housing costs because most of them owned their homes free and clear of any mortgage payments. Some 83 percent of elderly homeowners, and 85 percent of poor elderly homeowners, owned their homes free of mortgages.

Despite the large proportion of elderly homeowners who have paid off their mortgages, elderly homeowners are more likely to bear high housing costs than homeowners who are not elderly.

- In 1985, some 26 percent elderly homeowners paid more than 30 percent of its income on housing, and 10 percent paid at least half of its income on housing.

- In comparison, some 20 percent of non-elderly homeowners paid 30 percent or more of their income for housing, and only six percent paid at least 50 percent of their income for housing expenses.

The higher cost burdens of elderly homeowners reflect the fact that their incomes are typically much lower than those of non-elderly homeowners. In 1985, some 17 percent of elderly homeowners were poor, and 47 percent had incomes below twice the poverty line. By contrast, only seven percent of non-elderly homeowners were poor, and 22 percent had incomes of less than twice the poverty line.

As a result, the costs that elderly homeowners incur even when free of mortgage payments -- costs for utilities, maintenance, property taxes, and insurance -- often constitute a substantial burden.[5]

Young Single-Parent Families

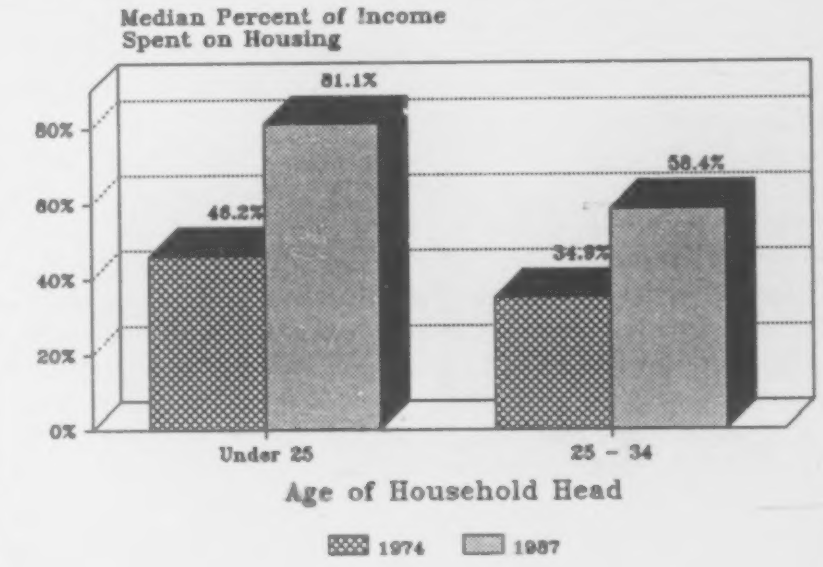
Of all types of families or age groups, families headed by a young single parent face the most serious housing problems and are the group most vulnerable to high rent burdens. According to a recent national study prepared by the Joint Center for Housing Studies of Harvard University, the increases in rent burdens borne by single-parent families in which the parent is under age 25 have been larger in recent years than the rent increases borne by any other group.[6]

According to the Harvard study, the typical young single-parent renter family paid 46 percent of its income for housing costs in 1974. (More than nine of every ten young single-parent families are renters.) By 1987, the study estimated, the typical young single-parent renter family paid *81 percent* of its income for housing. The study also estimated that the median rent burden for single-parent families in which the parent was aged 25 to 34 increased from 35 percent of family income in 1974 to 58 percent of income in 1987 for a unit of similar quality.

These extremely high -- and growing -- housing cost burdens borne by young single-parent families reflect the fact that these families tend to have very low incomes and that their incomes have declined sharply in recent years. According to the Harvard study, the median income for single-parent families in which the parent was under age 25 dropped 36 percent, after adjusting for inflation, from 1974 to 1987. The typical young single-parent family had an income of just $4,859 in 1987. The poverty line for a two-person household in 1987 was $7,641, while the poverty line for a family of three was $9,056.

Given their very low incomes, it is not surprising that young single-parent families have very low rates of homeownership. The Harvard study found that in 1987, only one in sixteen young single-parent families -- six percent -- were homeowners.

It also bears noting that a substantial proportion of young single-parent families live in substandard housing conditions. In 1987, nearly one of every four young single-parent households -- 24 percent -- lived in housing with moderate or severe physical deficiencies.



Source: Joint Center for Housing Studies
Harvard University

Figure 12
Rent Burdens of Young
Single Parent Families With
Children, 1974 and 1987

Young Married-Couple Households Also Face Serious Housing Problems

If the data are examined another way and *all* young households are considered -- including single-parent families, married couple families, and single individuals -- the picture remains troubling. All such categories of households where the head is under age 25 have experienced increasing housing cost burdens in recent years, and fewer young households are homeowners today than 15 years ago. Housing problems have worsened more for households headed by a person under age 25 than for any other age group.

- According to the Harvard Study, in 1974 the typical young renter household spent 24 percent of its income for housing. By 1987, the rent burden for such a household had climbed by half, to 36 percent of income.

- During the same period, the income of the typical young household fell 29 percent, after adjusting for inflation. In 1987, the typical young household had an income of $13,486.

- According to the study, some 23 percent of young households owned their homes in 1974. By 1987, only 16 percent of young households did.

Chapter Notes

1. It should be noted that according to the American Housing Survey data, 21.1 percent of elderly households were poor in 1985. Under another Census Bureau survey, however, the Current Population Survey, some 15.3 percent of elderly households were poor that year. The American Housing Survey data appear to reflect some underreporting of income by elderly households and to overestimate the elderly poverty rate. Nevertheless, both the AHS and CPS data show that the proportion of elderly households that are *either* low *or* moderate income -- as measured by having income below *twice* the poverty line -- far exceeds the proportion of non-elderly households falling into this income class.

   This paper uses AHS data on the incomes of elderly households because they are the only Census data available that link the housing costs borne by elderly households to the incomes of these households.

2. Data breaking out the cost burdens of poor elderly renters and poor elderly owners are not available.

3. Congressional Budget Office, *Current Housing Problems and Possible Federal Responses*, p. 56.

4. Data are not available on the housing cost burdens of *poor* elderly renters.

5. It should be noted that a number of states have programs that modestly reduce the housing costs of some elderly households. These programs generally aim to prevent low and moderate income elderly households from bearing especially high property tax burdens. Many such programs cover renters as well as homeowners; in these programs, a portion of rental charges are generally assumed to represent property tax costs passed on to the tenant by the landlord. While some states also extend these programs to low income non-elderly households, the more common practice is for states to limit the benefits to the elderly or the elderly and disabled --

or to provides benefits to elderly and disabled households that are greater than the benefits provided to other qualifying households.

6. William C. Apgar, Jr. and H. James Brown, *The State of the Nation's Housing: 1988*, The Joint Center for Housing Studies of Harvard University, pp. 23-28. The Harvard report calculated its 1987 estimates for housing cost burdens by using the median priced rental unit for a specific family type in 1977 as its standard of comparison. The figures for 1987 assume a unit of similar quality for the same sized family as in 1977, but reflect changes in rental housing costs since 1977 using a specially-designed inflation index.

IX. CONCLUSION

For most low income households, housing has become an increasingly unaffordable commodity. With nearly two-thirds of all poor renters and nearly half of all poor homeowners paying more than 50 percent of their incomes for housing -- and with substantial numbers of the poor paying more than 70 percent -- little money is left for other necessities. As noted earlier, these figures can be regarded as a conservative estimate of the housing problems of poor households since they do not include most of those people who are homeless.

Unlike expenditures for food or clothing, rent or mortgage payments cannot readily be reduced. Most low income households cannot easily choose to buy less housing in a given month to free up funds for other basic expenses. Rather, a fixed rent or mortgage payment typically is paid in one lump sum each month.

The extremely high housing cost burdens faced by most poor households have serious implications. The severe shortage of housing that is affordable to poor households is likely to have contributed substantially to the growing problem of homelessness in the 1980s.

In addition, these extraordinary housing cost burdens are likely to have intensified related problems such as the incidence of hunger. The likelihood that a poor household will be without adequate food for part of a month is made considerably greater when the household's rent consumes so much of its income that the household has too little money left to buy enough food to last through the month.

High housing cost burdens also leave poor families especially vulnerable to unplanned economic disruption. A delay in a monthly welfare check, an unexpected medical expense, or a job lay-off can lead to a missed rent payment, an unpaid utility bill, or a shortage of groceries toward the end of the month. All of these events can have significant consequences for poor households.

Behind the growing low income housing squeeze lie both increasing housing costs and declining purchasing power among low income households. As noted, the number of low income households increased sharply between 1970 and 1985, at the same time that the number of low rent housing units declined.

Government commitments to assisting poor households with their housing needs have been limited. Currently, fewer than one in three poor renter households receives assistance through a federal, state, or local public or subsidized housing program. While developments in the private economy have created an increased need for government housing assistance in the 1980s (as a result of increases in poverty and decreases in the low rent housing stock), the federal government has retrenched instead. Had the number of units added to the subsidized housing stock in the 1980s continued at the same rate as in the late 1970's, commitments to assist an additional 1.8 million low income households would have been made.

The future now looks ominous for affordable housing. Projections of national trends suggest that just as affordable housing problems worsened sharply for low income households between the mid-1970s and the mid-1980s, so too are they likely to deteriorate further in the years ahead unless major changes are made in government policies and in the actions of the private sector.

Appendix A

STANDARDS OF HOUSING AFFORDABILITY

This report focuses primarily on households with incomes below the officially defined poverty level. For comparisons of income and housing costs, it uses HUD's 30 percent-of-income standard of affordability, which is the current norm for subsidized housing programs. However, important questions can be raised about 30 percent-of-income as the standard of affordability, especially for poor households.

Problems with the HUD Affordability Standard

The 30 percent-of-income standard of affordability, incorporated into law in 1981, is a questionable measure of a household's ability to pay for housing because it does not take the cost of other basic needs into account. For example, a large family must spend more for food and other needs than a single individual. Yet if the 30 percent-of-income standard of affordability is used, then at any given income level, a large household would have less money remaining per person (after paying 30 percent of income for housing) than would a smaller household.

For example, if a single person with an income of $5,000 was fortunate enough to obtain housing at $125 a month (30 percent of a $5,000 annual income), the person would have $292 per month left for other expenditures. Yet a three-person household at the same income level and paying the same rent would have only $97 left per person for other necessities, while a seven-person household would have only $42 remaining per person. In 1985, some 814,000 three-person households and 59,000 seven-person households had incomes below $5,000.

An Affordability Standard Alternative: The Market Basket

An alternative way to determine "affordability" is to estimate how much income a family would have left for housing costs after the household meets other basic necessities. This is sometimes called the "market basket" approach.

Until 1982, the Bureau of Labor Statistics (BLS) of the U.S. Department of Labor published annually a series of "urban family budgets," which included BLS estimates of the costs of various basic necessities for households of different sizes. BLS issued three sets of budgets: one for the costs of necessities for a family to obtain a "lower" standard of living, another for a family at an "intermediate" standard of living, and a third for a household at a "higher" standard of living. The most recent year for which the BLS published family budgets was 1981.

The BLS budgets can be used to assess the affordability of housing for low income households under a "market basket" approach. This is done by taking the BLS estimates for the costs of all necessities other than housing under the "lower" standard of living budget for 1981, which BLS has described as providing a modest but adequate standard of living, and adjusting these estimates for the inflation that has occurred since 1981. When this is done, the BLS data show that in 1985, the following amounts needed to be spent on necessities other than housing for a household to reach the BLS "lower" standard of living.

Table A-I
BLS Budgets For Non-Housing Needs:
Lower Standard of Living, 1985

Family Size	Annual Costs for Non-Housing Need
1	$3,960
2	6,290
3	9,060
4	10,820
5	14,590
6	18,370
7	22,140

The difference between these costs and a family's income thus represents what the family would have left for housing after meeting the costs of other necessities.

Under this approach, the 30 percent-of-income standard is found to be unrealistic for many low income households. Under the 30 percent standard, for example, it is assumed that a family of two with an income of $6,000 in 1985 could afford to pay $1,800 a year for housing. But under the "market basket" approach based on the BLS figures, this family could not afford to pay *anything* for housing and still fully meet the costs of other necessities. Similarly, the 30 percent standard would suggest that a family of four with an income of $12,000 could pay $300 a month for housing, while under the market basket approach the household would have only $98 per month (or 10 percent of income) for housing after meeting other basic needs.

Not surprisingly, the number of large renter households that have affordability problems is substantially greater under the market basket criterion than under the 30 percent-of-income standard. Conversely, the number of small renter households with affordability problems is less under the market basket approach than under the 30 percent-of-income standard. The total number of renter households with affordability problems is nearly the same under both approaches. (See Table A-II.)

- Under the 30 percent-of-income standard, some 12.4 million renter households faced affordability problems in 1985 (i.e., paid more than 30 percent of income for housing).

- Under the market basket approach, some 12.8 million households had affordability problems in 1985. This includes 7.8 million renter households that would not have had any income left for housing after meeting the costs of other necessities. It also includes five million households that would have been able to pay something for housing without sacrificing other necessities, but not enough to afford the median rental charge nationally, with adjustments for family size. (The use here of the national median rental charge provides a conservative estimate of the number of households facing affordability problems under the market basket approach, because the median rent levels used for these calculations are *lower* than the HUD-established "Fair Market Rents" in most areas of the country and that are used in HUD's subsidized housing programs.)

- Under the 30 percent-of-income standard, some 44 percent of single-person renter households, 35 percent of three-person households and 38 percent of seven-person households faced affordability problems (by virtue of paying at least 30 percent of their incomes for housing costs).

- By comparison, using the market basket criterion, 35 percent of single-person households, 43 percent of three-person households and a stunning 78 percent of households of seven or more persons faced affordability problems.

Table A-II
Comparison of Market Basket and Percent-of-Income Affordability Measures

		Households with Affordability Problems			
		Percent of income		Market Basket	
Household Size	Total Total Renters	Number	Percent	Number	Percent
1	11,319	5,011	44.3%	3,971	35.1%
2	9,086	3,211	35.3%	3,030	33.4%
3	5,240	1,835	35.0%	2,240	42.7%
4	3,772	1,293	34.3%	1,765	46.8%
5	1,742	592	34.0%	951	54.6%
6	664	238	35.8%	461	69.4%
7	457	174	38.0%	358	78.4%
Total	32,280	12,354	38.3%	12,775	39.6%

Estimated by Cushing N. Dolbeare from 1985 American Housing Survey data.

Appendix B

FEDERAL LOW INCOME HOUSING ASSISTANCE PROGRAMS

The federal government has subsidized housing for low income people since the depression of the 1930s. Public housing was initiated as a part of a broader jobs program, but became a separate program in 1937. Since then, federal involvement in housing for low income people has taken a variety of forms.

This appendix provides some general background information, followed by a brief description of the major subsidized housing programs of the U.S. Department of Housing and Urban Development (HUD) and the rural housing programs of the Farmers Home Administration (FmHA) of the U.S. Department of Agriculture. It does *not* deal with other federal housing programs, such as mortgage and credit insurance or tax expenditures related to housing, which benefit only the minority of taxpayers who itemize their returns.

Types of Housing Subsidy Programs

Before describing the various low income housing programs, it may be helpful to list the major aspects of federal involvement in low income housing assistance.

- Housing programs can provide subsidies for both *homeowners* and *renters*.
- These programs may subsidize housing *projects*, in which the owner of the project receives a subsidy in return for reserving units in the project for low income tenants. Programs may also offer *certificates* or *vouchers* (sometimes called "tenant-based subsidies") under which the recipients, within some limits, choose the rental units they will occupy from the

existing rental market. In these programs the government pays a portion of the rent directly to the owner of the unit selected.

- Housing programs may direct subsidies for the production or rehabilitation of a housing project to a public agency, a nonprofit owner, or a for-profit owner.
- The subsidy may help finance new construction or substantial (or moderate) rehabilitation, or it may cover a portion of the cost of renting a unit from the existing housing stock, or some combination of these approaches.
- The program may restrict the rent charged a low income household to a percentage of the household's income, with the government paying the remainder of the rent; it may limit the rent the owner can charge; or it may base payments on a formula tied to the amount of interest subsidy that the landlord receives.
- In project-based programs, subsidies may cover the *capital cost* of construction or provide low interest financing, or both. Some programs also subsidize operating costs once production is complete. In some programs, subsidies were provided to cover production costs only, and rental income was expected to cover the costs of operating the project (i.e., the costs of maintenance and utilities). However, when rents are limited to a percentage of household income, rental income is often insufficient to cover operating expenses. In these cases, subsidies may also be provided to cover these expenses.
- Housing programs may be targeted to *very low income* people (defined by HUD as those with household income less than 50 percent of median household income in their area, adjusted for household size), or these programs may be targeted to *low income* people (those with household income between 50 percent and 80 percent of median household income in their area), or in a small number of cases, to people with higher incomes.
- A program may be directed to rural areas and small towns or to special groups (such as elderly and handicapped people, farmworkers, or Native Americans).

A Brief History of Low income Housing Programs

Until about fifteen years ago, almost all housing subsidy programs were project-oriented and involved adding new or rehabilitated units to the low-cost housing stock. Generally speaking, the federal government (HUD or its predecessor agencies) contracted with the owner to pay the owner an annual subsidy for a given period in return for the owner's agreeing to rent his or her units to low income tenants for a specified period. The owner's obligation is referred to, in housing parlance, as a *use restriction*.

The subsidy mechanism is somewhat different for tenant-based subsidies, under which recipients choose units from the existing housing stock, generally units owned by for-profit landlords. Under these programs, HUD agrees to provide the subsidy to a public housing agency for a specified period (five or 15 years, depending on the program), and the agency signs agreements to pay the subsidies to the owner of the rental unit selected by the tenant household that has received the subsidy.

There are currently about 4.3 million units receiving subsidies under HUD programs, plus another 1.2 million under the rural housing programs of the Farmers Home Administration.

Trends in Low income Housing Policies

There are some broad patterns in the evolution of housing subsidy programs. Through the 1960s, housing subsidies were provided primarily for construction of new units, in response to an extreme urban housing shortage during and after World War II and the need to replace a substantial number of substandard units. Since the mid-1960s, with substantial increases in the quantity of decent housing, it was recognized that the most serious -- and growing -- housing problem facing low income people was that of affordability. In many communities, there were vacant units but they cost far more than low income households could pay. With a decreasing need to build new housing for poor households, tenant-based subsidies were introduced as a method of giving these households the ability to obtain decent housing from the existing stock.

Housing subsidies for the production or rehabilitation of low income housing have also changed. Through 1968, most federal production subsidies financed the construction of housing by public housing authorities. Since then, there has been a greater emphasis on encouraging private, for-profit developers or non-profit organizations to build or rehabilitate low income housing.

Finally, since 1974, there has been a trend toward standardization and consolidation. In 1973, President Richard Nixon declared a temporary moratorium on further development of housing under any federal program, with the exception of the tiny Self-Help Housing program of the Farmers Home Administration. Then, in 1974, Section 8 was introduced, and its various programs replaced most of the previous HUD programs. The older programs had somewhat differing subsidy levels, admission limits, and rent levels. Through Section 8 programs, eligibility requirements have been standardized, generally being targeted on households with incomes below 50 percent of the median household income for their area. These programs thus have focused more on providing housing for very low income households. To a lesser degree, the rent contribution required of recipients of housing assistance has also been standardized. Under most of these programs, households pay 30 percent of adjusted household income for rent.

With this as background, we turn now to brief descriptions of the major federal low income housing subsidy programs.

Low Income Housing Programs

Section 8: The Section 8 program, adopted in 1974, was intended as a broad, flexible substitute for the increasingly complex set of federal housing programs it replaced. The aim was to provide a subsidy that would bridge the gap between what lower income households could afford to pay for housing and the "fair market" cost of that housing; to make it possible for any entity - a public agency or a nonprofit or for-profit organization -- to participate in subsidized housing programs; to permit flexibility as to what kind of housing -- new, rehabilitated, or existing -- was provided; and, in general, to substitute market pressures for the complex regulations and procedures that had developed around its predecessor programs.

The basic concept was that the housing market establishes rent levels that cover the cost of developing and operating housing, and that HUD should use these as benchmarks for setting appropriate subsidy levels. The Section 8 subsidy, therefore, covers the difference between a fixed percentage of tenant income -- 25 percent initially, changed to 30 percent after 1981 -- and the "fair market rent" of the housing occupied. HUD set separate fair market rent (FMR) schedules for new or substantially rehabilitated housing, and also for existing housing, in each metropolitan area and in non-metropolitan counties. These rent schedules are adjusted annually to take changes in costs into account.

Under the Section 8 New Construction and Substantial Rehabilitation programs, developers were encouraged to build or rehabilitate low income housing in return for receiving the fair market rent for units that were rented to eligible low income tenants. These programs were active for about six years, but were largely ended in 1981.

The major Section 8 activity currently is in the Section 8 *certificate* and *voucher* programs. Section 8 certificates and vouchers are alike in that tenants choose their own units from the existing, generally private, housing market. The HUD subsidy commitment goes to the public housing agency, which in turn agrees to pay the subsidy to the landlord of the unit selected by the tenant, provided the unit meets certain quality standards. Contract terms for these subsidies last five to 15 years.

The Section 8 Certificate is actually a "Certificate of Family Participation," stating in effect that the public housing agency will pay a portion of the rent to the owner of a unit selected by a program recipient. With a Section 8 certificate, tenants may lease units that rent for amounts at or below the HUD determined "fair market rent". Tenants with a Section 8 certificate pay 30 percent of their adjusted household income for rent, and the subsidy makes up the difference between the tenant contribution and the actual rent of the unit selected. The rent, and the accompanying subsidy, may be adjusted annually to reflect rising costs.

Under the voucher program, the local public agency pays the landlord a subsidy equal to the difference between 30 percent of the tenant's adjusted income and a HUD "payment standard" tied to a specific area and family size (similar to the fair market rent). However, a tenant who receives a voucher may choose to rent a unit of *any price* (rather than one that costs *no more* than the HUD payment standard); but the tenant must then pay the difference if the rent exceeds the payment standard. Similarly, if the rent falls below the payment standard, the tenant is allowed to keep the difference.

The Section 8 program resulted in the addition of more subsidized units, at a faster pace, than any previous subsidized housing program. Yet despite the flexibility envisaged by its designers, the Section 8 program quickly developed into a series of separate programs, each with its own set of rules, operating under the overall Section 8 authorization. There were separate regulations and appropriations for Section 8 New Construction and Substantial Rehabilitation and for the Section 8 Existing Housing program. These were followed, in due course, by a Moderate Rehabilitation program and then by vouchers.

By 1988, some 2.3 million units were receiving Section 8 subsidies, not counting an additional 203,000 Section 236 units that also received Section 8 assistance. A majority of these subsidies were certificates or vouchers.

Public housing: Established during the Great Depression with the dual goals of providing employment and creating decent and affordable rental housing for low income households, the public housing program has always been restricted to households with incomes too low for them to rent decent existing housing on the private market. Public housing is owned or, in rare cases, leased by public housing authorities.[1]

Difficulties in finding sites forced many housing authorities to build high-rise projects during the 1950s and 1960s, as the only possibility of adding to the public housing stock. Construction of high-rise public housing, with the exception of housing for the elderly, was prohibited by federal law in 1969.

For about 30 years after 1937, income from tenant rents was intended to cover operating costs. Because operating costs were often substantial, many authorities established minimum rents that were higher than 20 percent of income, which was then the norm for tenant payments. This made even public housing unaffordable for many families. Legislation enacted in 1969 limited tenant rents to 25 percent of income -- changed to 30 percent of income in 1981 -- and authorized federal operating subsidies to cover the difference between rental income and operating costs.

As of 1988, there were 1.4 million public housing units. Despite the great attention paid to troubled high-rise public housing projects, most units were in garden apartments.

In addition to owning and operating public housing, the public housing authorities are charged with administering the Section 8 certificate and voucher programs.

Housing for the elderly and handicapped (Section 202): This program, established in 1959 as a direct loan program, provides financing to nonprofit organizations to build housing for elderly or handicapped people. The program was initially intended to serve people whose incomes exceeded public housing levels, but were too low to enable them to afford unsubsidized housing. Until 1970, the program provided only low interest loans (three percent or less) to cover development costs. Because this did not always reduce rents to levels affordable to poor elderly households, the 202 program was tied to Section 8 in 1974. Thus, instead of merely providing low interest loans to support the building of a project, it also provided subsidies to cover a portion of the tenant's rental costs. (Presently, 202 is the only program that can use Section 8 subsidies for new construction or substantial rehabilitation.) A total of 210,000 units had been produced under the Section 202 program by 1988.

Below-market interest rate (BMIR) programs: In 1961, partly because of the difficulty of finding suitable sites for public housing and partly to assist a slightly higher income group, the first of a series of interest reduction programs was adopted. These programs provided developers low-interest loans in return for the construction of moderately priced rental housing. These programs were intended to serve those households that had incomes that were above the eligibility level for public housing but were insufficient to meet the rental costs of new, unsubsidized housing.

Known by its section number, the Section 221(d)(3) BMIR program was similar to the early Section 202 program, in that it provided loans at or below three percent to nonprofit and for-profit owners, with the resultant savings passed on to tenants in the form of lower rents. About 160,000 units were produced under this program.

In 1968, the 221(d)3 BMIR program was supplanted by another form of interest subsidy, the Section 236 rental assistance program, which could reduce effective interest rates to as little as one percent, with the savings passed on to low and moderate income tenants. Some 528,000 units were receiving subsidies under the Section 236 program in 1988. However, the interest subsidy alone was not sufficient to reduce costs to affordable levels for many of the low income tenants who lived in Section 236 projects, so a variety of more extensive subsidies was provided -- additional subsidies under the 236 program itself, rent supplements, and Section 8 assistance.

A second major program enacted in 1968 was aimed at subsidizing home ownership, also by reducing interest rates. Under the Section 235 program, low income families were offered low interest mortgages that would enable them to purchase a home, and they were required to pay 20 percent of their incomes for principal and interest on their mortgages. The subsidy covered the difference between the subsidized interest rate and the market rate at the time the mortgage was issued. As of 1988, 148,000 units were being subsidized under this program. (This number does not reflect almost 400,000 units originally subsidized under the program but for which the mortgages have since been paid off, the purchasers have "graduated" to unsubsidized interest rates as their incomes rose, or the owners have defaulted.)

Rent supplements: Under this program, initiated in 1965, tenants were required to pay the greater of 30 percent of adjusted household income or 30 percent of the rent of a unit they have selected from the existing rental market. The rent supplement covers the difference between the tenant contribution and the actual cost of renting the unit. Tenants must select units with rents at or below what HUD determines as the "fair market rent" for the specific area and family size (the amount HUD determines to be needed to rent a "decent, safe, and sanitary" apartment of a "modest" nature). The rent supplement program is very similar to the Section 8 program, and since the mid-1970s, HUD has been converting rent supplement contracts to Section 8 contracts, leading to a steady attrition in the number of rent supplement units. From a peak of 180,000 units in 1977, the number had dropped to 23,000 by 1988.

Rural housing programs:[2] In addition to the better-known HUD programs, the Farmers Home Administration of the U.S. Department of Agriculture operates an array of housing programs in small towns (generally towns of under 10,000 people) and rural areas. The Farmers Home Administration has offices in most non-metropolitan counties, handling both farm and housing loans, and makes and services its loans directly.

The largest FmHA program, begun in 1949, is the Section 502 home ownership program, which makes low-interest loans for home purchases. In operation, it is similar to the old Section 235 program, providing loans with interest rates as low as one percent. A second, much smaller, home ownership program, Section 504, provides grants or low interest loans to very low income families for home repairs.

As of 1985, some 1.6 million families had borrowed under the Section 502 program. Many had paid off their loans or "graduated" to an unsubsidized interest rate as their incomes rose. An additional 72,000 loans and 52,000 grants (sometimes to the same owners) had been made under the Section 504 low income repair program. In all, there were 1.2 million active FmHA individual borrowers.

FmHA also operates a rental housing program, Section 515, that in concept is much like the HUD Section 236 program, with interest rates as low as one percent. Because this interest rate cannot reduce costs sufficiently to yield units that rent at levels that are affordable to all low income households, it is sometimes coupled with a rural rental assistance program, which provides rent supplements to tenants. In 1985, 366,000 Section 515 units had been built, and tenants occupying 131,000 of these units were receiving rural rental assistance. FmHA also has a number of smaller, special purpose programs, one of which (Section 514 loans and Section 516 grants) had provided 24,000 units of housing for migrant farmworkers by 1985.

Appendix Notes

1. Because it is publicly owned, public housing is exempt from property taxes, but the program requires a cooperation agreement with local government under which the authority makes a payment in lieu of taxes (PILOT) that is equivalent to 10 percent of tenant rents in return for the provision of local municipal services.

2. For further information on rural housing programs, the reader is referred to the Housing Assistance Council (HAC), 1025 Vermont Avenue, NW, Washington, DC 20005. HAC is the source of the data provided here on program levels in rural housing programs.